

1960.

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THE PARLIAMENT OF THE COMMONWEALTH OF AUSTRALIA.

---

JOINT COMMITTEE OF PUBLIC ACCOUNTS.

---

FIFTIETH REPORT

AND

FIFTY-SECOND REPORT.

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THE REPORTS OF THE AUDITOR-  
GENERAL—FINANCIAL YEAR 1958-59

PARTS I. AND II.

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JOINT COMMITTEE OF PUBLIC ACCOUNTS.

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The Senate appointed its Members of the Committee on 19th February, 1959 and the House of Representatives its Members on 24th February, 1959.

<sup>1</sup> Resigned 10th March, 1960.

<sup>2</sup> Appointed 16th March, 1960; elected Chairman 17th March, 1960.  
<sup>4</sup>Appointed 30th March, 1960.

<sup>3</sup> Resigned 30th March, 1960.

## DUTIES OF THE COMMITTEE.

Section 8 of the *Public Accounts Committee Act 1951* reads as follows:—

8. The duties of the Committee are—

- (a) to examine the accounts of the receipts and expenditure of the Commonwealth and each statement and report transmitted to the Houses of the Parliament by the Auditor-General in pursuance of sub-section (1.) of section fifty-three of the *Audit Act 1901-1955*;
- (b) to report to both Houses of the Parliament, with such comment as it thinks fit, any items or matters in those accounts, statements and reports, or any circumstances connected with them, to which the Committee is of the opinion that the attention of the Parliament should be directed;
- (c) to report to both Houses of the Parliament any alteration which the Committee thinks desirable in the form of the public accounts or in the method of keeping them, or in the mode of receipt, control, issue or payment of public moneys; and
- (d) to inquire into any question in connexion with the public accounts which is referred to it by either House of the Parliament, and to report to that House upon that question,

and include such other duties as are assigned to the Committee by Joint Standing Orders approved by both Houses of the Parliament.

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# JOINT COMMITTEE OF PUBLIC ACCOUNTS.

## FIFTY-SECOND REPORT.

### THE REPORTS OF THE AUDITOR-GENERAL—FINANCIAL YEAR 1958-59.

#### PART II.

#### CHAPTER IV.—COMMONWEALTH RAILWAYS.

##### (a) INTRODUCTION.

79. Your Committee's interest in Commonwealth Railways arose from two separate comments in paragraph 102 of the Auditor-General's Annual Report for the financial year 1958-59. Those comments dealt with

- (i) the freighting of coal from Leigh Creek; and
- (ii) obsolete locomotives and rolling stock.

Reference to both matters had been made in earlier Reports of the Auditor-General.

80. Public hearings were conducted on 2nd May, 1960, when evidence was taken from—
- |                                      |       |  |
|--------------------------------------|-------|--|
| Commonwealth Railways                | ..    | Mr. K. A. Smith, Acting Commissioner.<br>Mr. F. C. Respini, Acting Comptroller of<br>Accounts and Audit. |
| Attorney-General's Department        | ..    | Mr. J. Q. Ewens, Acting Secretary.   |
| Department of Shipping and Transport | ..    | Mr. E. B. Hall, Assistant Secretary.   |
| Audit Office                         | .. .. | Mr. H. C. Newman, C.B.E., Auditor-General<br>for the Commonwealth.                                       |
| Department of the Treasury           | ..    | Mr. J. F. Nimmo, First Assistant Secretary.<br>Mr. F. A. Stanton, Assistant Secretary.                   |
| Public Service Board                 | ..    | Mr. E. S. Lightly, Assistant Commissioner.   |

81. In the matter of cash receipts and payments, Commonwealth Railways operates within the structure of the Budget and is governed by the provisions of the Audit Act, the Treasury Regulations and the Treasury Instructions. Section 41 of the *Commonwealth Railways Act* 1917-1957 requires the Commissioner, as soon as possible after the close of each financial year, to submit to the responsible Minister for presentation to the Parliament an annual report and balance sheet showing stocks on hand, depreciation of property, proceedings and an account of all moneys received and expended during the year. The statute does not require the Auditor-General to report upon those accounts or the balance sheet nor for the form of them to be approved by the Treasurer. Even so Commonwealth Railways have stated clearly from time to time that the Profit and Loss Account and Balance Sheet are published in the annual report in the form laid down by the Department of the Treasury.

Exhibit  
No. 52/21.

Q.643 Report  
on Common-  
wealth Railways  
Operations for  
years 1956-57,  
1957-58 and  
1958-59,  
page. 5.

82. Both the matters we investigated were concerned with these "commercial" accounts and not the accounting required under the Audit Act.

##### (b) THE FREIGHTING OF LEIGH CREEK COAL.

83. In paragraph 102 of his Annual Report the Auditor-General said—

" . . . In 1956, on completion of the new standard gauge railway, the Government of the State of South Australia entered into negotiations with the Commonwealth Government regarding the cost of freighting coal from Leigh Creek to Port Augusta. These negotiations resulted in agreement that the rate should be 11s. 6d. per ton which is slightly more than one-third of the standard rate.

It has been the practice of the Commissioner to show, as 'earnings' the difference between the contractual rate of 11s. 6d. per ton and the standard rate of 33s. per ton for all coal transported under the agreement. The amounts thus assessed are substantial—the figure for 1958-59 being £751,639.

Claims on the Commonwealth by the Commissioner for reimbursement of these amounts were rejected. Treasury has not authorized the practice of including in the accounts of the Railways the difference between the two rates."



In the three financial years 1956–57, 1957–58 and 1958–59 amounts totalling £2,035,266 9s. 7d. in excess of the payments received from the Electricity Trust of South Australia were taken into the accounts as “earnings”, the asset item “Sundry Debtors” being increased accordingly. The Commissioner took this action under Section 44 of the Commonwealth Railways Act which provides—

“The Minister may direct the Commissioner to make any alteration in any existing practice or carry out any system or matter of policy, but where any such direction, or any direction or proposition given or transmitted in pursuance of the last preceding section, adversely affects the accounts of the railways, the Commissioner shall notify the Minister thereof from time to time, and the amount of any loss occasioned by the direction or proposition shall, if certified by the Auditor-General, be provided by Parliament in the Annual Appropriation Act and paid to the Commissioner.”

Exhibit  
No. 52/19.

84. The history of this matter extends back to 1943 when agreement was reached between the Commonwealth and South Australian Governments that Commonwealth Railways would carry coal from Leigh Creek to Port Augusta at a charge of 7s. 1d. per ton and from Leigh Creek to Quorn at a charge of 6s. per ton, the charge in each case being one half-penny per ton-mile. In August, 1948, Commonwealth Railways, which hitherto had carried the coal without subsidy, submitted a request to the Minister for the Interior (then the responsible Minister) that, in accordance with the provisions of Section 44 of the Commonwealth Railways Act, the loss of revenue caused by the granting of the low freight rate should be reimbursed to the Commissioner. This request was granted and, as from 1st July, 1948, the Railways claimed and were paid by the Commonwealth the difference between the special freight rate and the standard rate for coal. The Commonwealth continued to meet the Railways' claims until the close of the financial year 1955–56; the payment in that year was £591,288.

Exhibit  
No. 52/20.

85. The standard gauge link between Port Augusta and the Leigh Creek coalfields was completed in May, 1956. Agreement had been reached between the Commonwealth and South Australian Governments for the carriage of coal on the new line at an increased rate of 11s. 6d. per ton and the Commonwealth Railways Commissioner was so informed by the Minister for Shipping and Transport by letter on 25th May, 1956. Regarding the cessation of the “difference” payments to the Commonwealth Railways, the Department of Shipping and Transport said in a formal statement to Your Committee dated 8th April, 1960—

Exhibit  
No. 52/20.

“... the Commonwealth Treasury took the view that an entirely new set of circumstances came into existence at the beginning of 1956–57 with the opening of the new standard gauge line between Stirling North and Marree.

In August, 1956, Cabinet decided that there should be no ‘subsidy’ provision in the 1956–57 Estimates and that ‘the case for a subsidy be reconsidered, if necessary, during the course of 1956–57’. Since that date there have been protracted negotiations and exchange of views between the Commonwealth Railways and the Department of the Treasury, without a resolution of the matter. . . .”

“... In August, 1959, the Minister made a Submission to Cabinet on the issues involved and it was decided, among other things, that representatives of the Minister for Shipping and Transport and Treasury, in collaboration with Commonwealth Railways, should carry out an examination of the real cost of carrying Leigh Creek coal at various tonnage levels.

This examination is being carried out, but because of some of the complexities of the costing issues which have been encountered, the enquiry is now only in the course of being finalized . . . .”

86. Because of the significance of the claimed amounts in the published accounts of the Railways and their effect on the level of the reported net profits (the additional “earnings” taken into account by the Railways in the three financial years 1956–57, 1957–58 and 1958–59, represented 68 per cent. of the net profit over those years) we consider it important to establish the legal status of the claims of the Railways under sections 43 and 44 of the Commonwealth Railways Act. Accordingly, we sought advice in this matter from the Acting Secretary, Attorney-General's Department, Mr. J. Q. Ewens, who informed us by letter dated 27th April, 1960, as follows:—

Exhibit  
No. 52/22.

“... Your memorandum states that, in the accounts of the Commonwealth Railways for the financial years 1956–57, 1957–58 and 1958–59, the Commonwealth Railways Commissioner has shown as earnings in respect of the carriage of Leigh Creek coal, certain amounts that are claimed to be payable to the Commissioner by the Commonwealth in accordance with section 44 of the Commonwealth Railways Act. Perhaps I should mention here that I have perused the annual report and financial statements of the Commissioner for the financial year 1958–59 and have not been able to find any reference to section 44.\*

The amounts claimed by the Commissioner in respect of the three financial years mentioned now total £2,035,266 9s. 7d. This sum represents the difference between the income received by the Railways in respect of the haulage of Leigh Creek coal for the State of South Australia at a concessional freight rate and the amount that would have been received if normal freight rates had been charged.

\* Reference to section 44 was made in the annual reports for the financial years 1956–57 and 1957–58.



The question for advice is whether the claim of the Commissioner that this sum is owed to the Railways by the Commonwealth is, as a matter of law, supported by section 43 or 44 of the *Commonwealth Railways Act 1917-1957* or by any other provision of that Act. In my opinion, the answer to that question is 'No'.

However, it does not necessarily follow from my advice that it is not proper for the Commissioner to show, by some appropriate statement in the annual report and balance sheet prepared under section 41 of the *Commonwealth Railways Act*, that he considers he should be reimbursed the difference mentioned in paragraph 3 of this advice. Whether it should be shown, as apparently it is shown, under the heading 'Current assets—sundry debtors', is a matter of accounting practice upon which I am not competent to speak."

In elaboration of his opinion Mr. Ewens said in evidence before us that, as a matter of law, sections 43 and 44 had no application to freight rates. He then went on to say that sections 43 and 44 had no effective operation at all. Q.531.

MEMBER: "Here is a provision the general purport of which is that the Railways should be run on commercial lines but if the Government had a reason for wanting to do something else would you not say that the main reason for this—in looking at the broad history of Railways in Australia—is that this should be applied in relation to freight rates. That appears to me to be the intention behind the section. You feel that the law as it now stands does not touch freight rates, that it does not apply to freight rates?—(Mr. Ewens) The section does not apply to freight rates. The operative part of it merely says that the amount shall be provided by Parliament in the Appropriation Act. That is nonsensical because one act of Parliament cannot say what shall go into another act of Parliament. The section has no effective operation at all even if freight rates were included in it which, in my opinion, they are not." Q.533.

MEMBER: "Not section 43 but certainly section 44?—(Mr. Ewens) Section 43 has no operation on its own. The operative part of section 44 provides that the loss occasioned—that is, a loss occasioned by the operation of section 43 or the earlier part of section 44—shall be provided by Parliament in the annual Appropriation Act. But one Act cannot say what an appropriation act shall provide." Q.534.

MEMBER: "Virtually, sections 43 and 44 fall flat?—(Mr. Ewens) As a matter of law, they have no effective operation at all. The moral position behind them is another matter but I do not know that I am particularly qualified to speak about that." Q.535.

87. Mr. Ewens also expressed the opinion that the Minister was not empowered under the Act to direct the Commissioner to fix particular freight rates. He later said— Q.569.

(Mr. Ewens) ". . . I think the legal analysis of what happened in all this is that the Commissioner should have gone on charging his full rate of 33s. instead of 11s. 6d. to the Electricity Commission. The Commonwealth Government should have paid the South Australian Government the difference between 33s. and 11s. 6d., and the South Australian Government should have paid that difference to the Electricity Commission." Q.578.

MEMBER: "You feel that is the proper legal course?—(Mr. Ewens) Yes." Q.579.

88. We established that the rate of 33s. per ton upon which the Railways had based its claims was not one especially struck for the carriage of Leigh Creek coal; it was the miscellaneous rate applicable to journeys of approximately 170 miles. However, we were told that the Railways had assessed, at 33s. 9d. per ton, an appropriate freight rate for the carriage of Leigh Creek coal. Q.618.

89. We asked the Treasury why some three years had elapsed after cessation of the payments to the Railways, before a departmental committee had been established to examine the real cost of carrying Leigh Creek coal. The Treasury said—

(Mr. Nimmo) ". . . I think there is an explanation for that. I think the Government has had this question in mind but one of the difficulties has been that there has been an increasing carriage of coal over this line. Initially, with smaller tonnages and the teething difficulties in getting the line going, you would expect costs to be higher than they would be in a year or two. I think one of the reasons possibly why the investigation has been apparently delayed has been to allow sufficient time to get some worthwhile experience on which to estimate the real cost of carrying this coal." Q.603.

90. Your Committee do not consider unreasonable the action of the Commonwealth Railways Commissioner in making allowance in the accounts for the financial years 1956-57, 1957-58 and 1958-59, those amounts which he considered were legally due from the Commonwealth to offset the loss to the Railways occasioned by the carriage of coal from Leigh Creek to Port Augusta at the rate of 11s. 6d. per ton agreed upon between the South Australian and Commonwealth Governments. While it might have been prudent, in the light of the serious step he was taking, for the Commissioner first to have established beyond doubt the legal status of his claim, the fact remains that—

- (i) similar claims had been met by the Commonwealth for the previous eight years;
- (ii) seemingly it was the intention behind section 44 to provide for reimbursement in cases of this nature; and



Q.591.

(iii) the Commissioner would have been within his rights at law had he levied charges at the full rates, leaving it to the Electricity Trust of South Australia to seek reimbursement from the Commonwealth Government.

Exhibit  
No. 52/19.

The evidence available to the Committee indicates that the Commissioner sincerely believed that the amounts claimed were legally due to the Railways. In a letter to the Treasury dated 23rd April, 1959, he said—

“ . . . It is appreciated that, in spite of the reasons advanced concerning section 44, Treasury may express some doubts as to their validity, even though they have recognized the application of section 44 in the past. It is therefore relevant to ascertain as far as practicable what the intention of the Government was at the time the Commonwealth Railways Act was ratified. This appears to have been made abundantly clear in the Debate when the Bill was being introduced in the House of Representatives on the 25th July, 1917, by Mr. Watt, Minister of Works and Railways. He stated, *inter alia* . . .

‘ We now come to two more important clauses defining the relationship of the Commissioner to the Minister. I refer to clauses 44 and 45. . . . (Sections 43 and 44 of the Act.) These again are provisions which have been framed as the result of experience of State action. . . . They amount to this: that the Minister may submit to the Commissioner a proposition for consideration. If the Commissioner approves of that proposition all is well—there is an agreement. If he does not, and there is any dispute as to who is right and who is wrong, the Governor-General in Council may determine the question. If, after such a determination, the Minister deliberately orders certain alterations in the railway management, and these alterations involve the Railway Commissioner in any expenditure, then the cost has to be provided by the Treasury . . .

‘ Mr. Pigott: Does that refer to freights and fares?’

Mr. Watt: To anything, including freights and fares, over which Ministerial interference with the Commissioner may operate.’

On the 3rd August, 1917, Mr. Watt further stated: ‘ If the carrying out of the Minister’s policy is disadvantageous to the Railways from a cash point of view, Treasury will have to make up any difference’, and further on, he stated: ‘ The clause says that if a financial disadvantage is suffered by this change imposed by the Minister, the Treasury shall pay.’ It is my firm view, therefore, that it must be conceded that section 44 has application in the case of the special Leigh Creek coal rate and my conviction is that if I failed to claim in accordance with section 44 for reimbursement by the Treasury it would be an unjustified avoidance of the obligations placed upon me as Commonwealth Railways Commissioner.”

Qs.544, 616.

91. *Comment.*—A singularly disturbing feature about this matter is that it should have been allowed to remain unresolved for so long. Notwithstanding the Commissioner’s persistent objections and his published assertions that the Railways were legally entitled to reimbursement of the loss sustained, no attempt was made by the Treasury or any other authority it seems, to seek a legal opinion as to the validity of the Commissioner’s claim—and some three years elapsed before the committee was established to examine the real cost of carrying Leigh Creek coal. In the view of Your Committee there has been unnecessary delay in determining this matter.

Annual  
Report for  
year 1959–60,  
page 4.

92. The legal opinion submitted to Your Committee in April, 1960, established the legal status of the Commissioner’s claim. In the published accounts of the Railways for the financial year 1959–60, earnings in respect of the haulage of Leigh Creek coal were brought to account on the basis of the amount actually charged the Electricity Trust of South Australia for the services provided, and not on the basis of the standard freight rate for the mileage concerned.

93. The principle embodied in section 44 of the Commonwealth Railways Act is important viz. that if, as a matter of government policy, a governmental business undertaking is required to act in a manner which adversely affects its accounts, then the losses sustained should be reimbursed by the Government. If it is intended that the principle should continue to apply to the Commonwealth Railways then, in the light of the legal opinion furnished to Your Committee, some variation in the present form of section 44 will be necessary. But irrespective of whether any loss actually sustained by the Railways is reimbursed by the Government, Your Committee consider that the extent of any subsidy (visible or invisible) on Leigh Creek coal or other freight carried by the Railways, which is the result of deliberate Government policy, should be disclosed to the Parliament.

#### (c) OBSOLETE LOCOMOTIVES AND ROLLING STOCK.

94. Under this heading in paragraph 102 of his Report, the Auditor-General said—

“ The position as mentioned in previous Reports is, in the main, unchanged. Disposal action continued during the year but a direction has not yet been received from the Treasury as to the method of writing the assets out of the accounts of the Railways. The book value of obsolete stock, which still appears in the accounts at cost, is £975,402, including the cost of stock sold £572,992. These figures are subject to determination by the Commissioner. Proceeds from sales amounting to £42,072, previously recorded in a suspense account, have now been transferred, at Treasury direction, to Loan Fund.”



95. In a formal statement, the Department of Shipping and Transport informed Your Committee as follows:—

“With reference to the obsolete locomotives and rolling stock, it is advised that as a result of representations to the Department of the Treasury, approval was received in 1953 to write off obsolete equipment and to proceed with the sale of such equipment on the best possible terms, either as complete units or as component parts, or scrap. Exhibit No. 52/24.

Commonwealth Railways has no depreciation reserve and consequently any writing off of book value of obsolete assets would be a charge to Working Expenditure. As the financial position of the Railways would not justify this procedure, the matter of method of writing the assets out of the Railway accounts was submitted to the Treasury in 1953. The Treasury intimated that whilst approval was given for disposal of obsolete equipment, a decision had not been made as to the method of writing off the book value of such assets. This question has been reviewed by the Treasury from time to time since 1953; however, to date, a decision has not been made.

The disposal of obsolete equipment has been proceeded with and sales have been arranged as a result of advertising equipment for sale by tender. Until 1956 satisfactory tenders were not received, and no action was taken regarding disposal. However, a number of tender calls since 1956 resulted in satisfactory offers being received and disposal of equipment has followed whenever acceptable prices have been offered.

Problems initially encountered in the disposal of obsolete equipment included the grouping and recording of assets, the release of suitable manpower from other urgent railway activities to attend to work associated with disposals, and the reluctance of tenderers to offer for whole locomotives and other rolling-stock, preference being shown for such equipment offered cut up for scrap prior to sale.

The costly work of cutting up of locomotives into small sections requires the employment of skilled labour not always readily available, and the Commonwealth Railways were therefore not prepared to offer equipment in a cut up state. Since 1956 tenderers have been offering for whole locomotives, &c., and performing their own demolition.

The Department of the Treasury has been kept informed of progress of disposals in respect of (a) Capital value of assets sold, (b) Value of components used to repair other units or taken into stock and (c) Proceeds received from sales. Similar information has been made available to the Audit Office.

The recommendations regarding assets to be disposed of is made by a committee of the Heads of Branches at Commonwealth Railways operating centre at Port Augusta and such recommendations are subject to the Commissioner's approval. Current holdings of obsolete equipment are subject to continuous examination and review by the Commissioner with a view to ensuring that only equipment and components for which no further use can be found are made available for disposal. This examination is, of course, made in the light of railway usage at the time of review.”

In its formal statement dated 16th March, 1960, the Treasury said—

“... The proceeds of disposals to date have been correctly brought to account in the Commonwealth's accounts, but the question of treatment in the commercial accounts of Commonwealth Railways is being considered in conjunction with a general review of Commonwealth Railways finances. In the meantime, pending completion of this review, Treasury has agreed to the deferment of write-off action in the commercial accounts. It is hoped that finality will be reached by the end of the current financial year (1959-60).” Exhibit No. 50/3.

96. One of the less desirable aspects of a “commercial” accounting system which does not provide for annual depreciation of wasting assets is that there is an encouragement to retain obsolete stock unnecessarily to avoid large charges to meet losses on disposal in current accounts. This is fact occurred in the case of the Commonwealth Railways—

MEMBER: “... Has the possibility of holding on to old junk just to save the book loss influenced you at all?—(Mr. Smith) Originally, yes. That is why we obtained the approval of the Treasury. (Mr. Respini) We feel that one year should not have to carry depreciation charges which should have been spread over the life of those assets, had a depreciation account operated from the inception of the Railways system.” Q.681.

97. The situation now has been reached where, in terms of normal commercial practice, the profit and loss accounts and balance sheet of the Railways are completely misleading. As at 30th June, 1959, assets appearing in the accounts at a value of £572,992 had in fact been disposed of for £42,072 while presumably other obsolete assets in the accounts at a cost of approximately £402,000 were substantially over-valued. And the position is being aggravated each year as further stock is being declared obsolete and provision for depreciation of assets continues not to be provided for in the “commercial” accounts of the Railways notwithstanding substantial expenditure on new equipment in recent years. While this position remains the reported profits of the Railways will continue to be overstated (or losses understated) and the balance sheets of the undertaking inaccurate. Q.656.



98. We raised this and other accounting matters with the Railways and the Treasury and asked what was being done to remedy an unsatisfactory situation—

Q.672.

MEMBER: "As I see the position at present, the railway accounts are in a very obscure and somewhat parlous condition, due to a number of factors, including the fact that interest is being paid on moneys obtained from loan fund but not on capital obtained from Consolidated Revenue and no provision is being made for depreciation. On the other side, there is reason to suppose they may not be getting an economic freight rate for some of their other operations. All these factors taken in conjunction make it extremely difficult for Parliament or the public to form any proper judgment of what the financial position of the railways is. Do I take it that some inquiries are under way to remedy this position so that within the comparatively near future the accounts will be presented in such a way as to reflect all these factors clearly and so that the true position may be gauged?—(Mr. Smith) I understand steps are being taken to investigate the matter. (Mr. Stanton) There is an intention to that effect. An enormous amount of work has been done by Treasury over the last couple of years. In the ultimate, it becomes a question of Government policy and what Parliament wants to do with its instrumentality but the necessary background of information is being obtained and appropriate recommendations are being prepared."

99. The position as at 28th September, 1960, is set out in the following advice forwarded to Your Committee by the Department of Treasury:—

"As mentioned before the Committee on 2nd May, 1960, there has been in progress for some time a general review of the financial structure and accounting arrangements of Commonwealth Railways. This review is now at the report stage, and it is expected that appropriate recommendations will be made to the Government in the near future.

In the meantime the situation remains substantially the same as it was last May. Directions issued by the Treasury (in 1953 and 1959) were designed to ensure, firstly, that disposal action was not delayed for accounting reasons and, secondly, that proceeds of sales (£51,444 to 30th June, 1960) were dealt with in the correct manner. These objectives have been achieved.

No direction has been given in regard to the subsidiary 'commercial' accounts of Commonwealth Railways which, in the absence of any statutory requirement to the contrary, are considered to be under the complete control of the Railways Commissioner as a statutory corporation and which, as you are aware, are published without certification by the Auditor-General. The accounts as at 30th June, 1960, have already been published, and in the circumstances there would appear to be little point in taking piece-meal action on individual items in advance of the extensive re-arrangement which it is anticipated will be called for by forthcoming policy decisions."

100. *Comment.* It seems to us that the Treasury has sought now to absolve itself of any responsibility for the unsatisfactory situation that exists at present in relation to the accounts of the Commonwealth Railways. However, it is clear that the Railways have accepted the right of the Treasury to determine the form of the commercial accounts and have so reported from time to time. For example in the 1955-56 Report the Commissioner said—

"It was mentioned in report for 1954-55 that the Department of the Treasury had under consideration certain alterations to the method of compiling the Profit and Loss Account. Discussions have taken place between the two Departments, but direction as to nature and extent of the alterations decided upon by the Treasury had not been received at the time this report was finalized. The Profit and Loss Account has, therefore, been compiled on the same basis as for previous years."

In the 1956-57 Report in the course of comments upon the basis upon which the accounts had been compiled including the matters of depreciation and interest on capital, the Commissioner said—

"The form to be adopted for compilation of the Profit and Loss Account and Balance Sheet and the various debits to be brought to account therein is dictated by the Commonwealth Treasury, and our accounts have been published in accordance with these directions.

This subject has been under review for some time, and the matter has been discussed with this Department, but no direction has been given by the Treasury to amend the current procedure and our accounts are presented in accordance with past practice."

The responsibility and right of the Treasury to issue directions regarding the form of subsidiary accounts to be maintained by undertakings operating within the structure of the Budget and subject to the Audit Act are matters which we will examine in greater detail later in this Report in relation to the Department of the Interior. It is sufficient for us to say at this point that the way was clear for, and in the particular circumstances there was a responsibility upon, the Treasury to resolve promptly the matters of depreciation of wasting assets and the treatment in the accounts of capital losses on obsolete stock. In the latter instance, and in the absence of a system of depreciation, to have written off against the profits of recent years the losses made on disposal as they occurred should not have presented an unreasonable burden for the accounts of the Railways to bear. Yet the Treasury agreed to a course of action which has resulted in the publishing of accounts which have been misleading both to the Parliament and to the Public.

See paragraphs  
147-153 below.



## (d) CONCLUSION.

101. The Commonwealth Railways is a substantial undertaking now earning revenue in excess of £5,000,000 annually and controlling assets of a value recorded in the latest balance-sheet at approximately £50,000,000. Your Committee consider that the maintenance and publication of appropriate commercial accounts, subject to audit and report by the Auditor-General, is essential for this undertaking.

102. It was patently clear from evidence given by the Auditor-General and others that the time has long since arrived when the whole capital structure of this undertaking and the form of its accounting should be reviewed so that it can operate on a sound commercial basis and produce for its own management purposes, the Government and the Parliament, realistic and useful financial information.

## CHAPTER V.—DEPARTMENT OF HEALTH.

## (a) INTRODUCTION.

103. Paragraph 79 of the Annual Report of the Auditor-General for the year ended 30th June, 1959 and paragraph 17 of his Supplementary Report indicated that the accounts of the Commonwealth Serum Laboratories and the Canberra Community Hospital respectively had not been available for audit at the time of preparation of the Reports. We were concerned to establish the reasons for the non-availability of these accounts and to this end public hearings were conducted on 29th April, 1960, when evidence was given by—

Mr. H. C. Newman, C.B.E.	..	Auditor General for the Commonwealth.
Mr. D. G. Dunlop	..	Assistant Director, Department of Health.
Mr. G. T. Gillberg	..	Administrative Officer, Commonwealth Serum Laboratories
Mr. A. Harris	..	Chairman of the Canberra Community Hospital Board and Assistant Secretary, Department of the Treasury.

## (b) THE COMMONWEALTH SERUM LABORATORIES.

104. The Commonwealth Serum Laboratories were first established in 1916 under the administration of the Quarantine Branch of the then Department of Trade and Customs. In 1921 the Laboratories were placed under the control of the newly formed Department of Health within which Department they have since remained. The operations of the Laboratories are financed through the Serum Laboratories Trust Account established under section 62A of the Audit Act while funds for expenditure on capital works and equipment are provided, in the main, from Capital Works and Services appropriations. Q.427.

105. The Laboratories operate as a commercial undertaking and, since 1950, the accounts have been kept on a commercial basis. The commercial accounts are not required by statute and, until 1959, were not subject to audit by the Audit Office. However, the Audit Office had received, on a confidential basis and for information only, copies of the annual financial statements prepared by the Laboratories. In January, 1959, following a request from the Treasury, the Department of Health informed the Treasury that it had no objection to the commercial accounts of the Laboratories being audited and reported upon in the Report of the Auditor-General. However, the Auditor-General is not required to, nor does he, certify the financial statements. Qs.429–431.  
Q.431.  
Q.431.  
Q.444.

106. The financial statements for the year ended 30th June, 1959, the first submitted under the new arrangements, were forwarded by the Department of Health to the Audit Office on the 7th January, 1960. This was not inconsistent with the Department's performance in previous years when dates of submission were—

Financial Year.					Date of Submission.	Exhibit No.
1954–55	..	..	..	..	22nd November, 1955	52/16.
1955–56	..	..	..	..	12th December, 1956	
1956–57	..	..	..	..	21st February, 1958	
1957–58	..	..	..	..	5th November, 1958	

It was clear to us that the Department had not considered that any better performance was necessary. The Department told us that the Audit Office had not set target dates for submission of the statements nor made any criticism relating to delay. Q.436.  
Q.437.

107. The Department of Health doubted whether the financial statements could be provided to the Audit Office much before the end of September, giving as the two main reasons—

- (i) the incidence of other accounting work in the first months of the financial year; and
- (ii) the task of valuing works-in-progress.

The Department agreed that, if a satisfactory basis for readily valuing works-in-progress could be established, then the final accounts should be available within a few weeks of the closing of the financial year. Q.473.



Exhibit  
No. 52/17.

108. The Commonwealth Serum Laboratories is a large commercial type of undertaking. As at 30th June, 1959, funds employed were £5,824,423, annual turnover exceeded £2,500,000 while the net surplus for the year amounted to £212,007. Yet there is an inordinate delay before financial information appropriate to such an undertaking is made available to the Parliament.

109. We support the administrative decision which resulted in the preparation of commercial type accounts for the undertaking and later, in 1959, in the auditing of these accounts by the Audit Office. However, Your Committee consider that—

- (i) the accounts also should be certified by the Auditor-General; and
- (ii) the Department of Health should take steps to ensure that the annual financial statements are made available to the Audit Office in sufficient time to permit the Auditor-General to report upon them in his Annual or Supplementary Report.

(c) THE CANBERRA COMMUNITY HOSPITAL.

110. Your Committee were concerned with two matters—

- (i) the delay in submitting for audit the financial statements relating to the Hospital for the financial year 1958–59; and
- (ii) comments by the Auditor-General in earlier reports upon the inadequacy of the financial statements.

Canberra  
Community  
Hospital  
Ordinance,  
Section 6.

111. The Canberra Community Hospital is established under the Canberra Community Hospital Ordinance 1938–1959. The Ordinance provides for a Canberra Community Hospital Board consisting of eight members, three of whom are appointed by the Minister and five elected by eligible persons resident in the Australian Capital Territory. The main responsibilities of the Board are (*Committee's italics*)—

S.24 (1).

- (i) *subject to the directions of the Minister*, to determine matters concerning the general policy to be adopted by the Medical Superintendent in the administration of the Hospital;

S.25 (1).

- (ii) *subject to the directions of the Minister and with his concurrence* to appoint staff and determine terms and conditions of employment;

S.28 (1).

- (iii) *subject to the directions of the Minister* to apply moneys in its hands for purposes listed in the Ordinance.

The Minister is the Commonwealth Minister for Health.

112. The revenue of the Board consists of—

- (i) appropriations by the Parliament for the purposes of the Hospital;
- (ii) payments received from patients and for services rendered;
- (iii) donations and other moneys received for the purposes of the Hospital.

In the year ended 30th June, 1959, the receipts of the Hospital were—

Exhibit  
No. 52/18.

	£	s.	d.
Government appropriations*	420,501	4	2
Patients Contributions	74,237	15	6
Miscellaneous	730	7	2
	495,469	6	10

\* Includes hospital and pharmaceutical benefits.

113. The Board is required to keep full and particular accounts of all moneys received and expended (the Ordinance does not require that commercial type accounts be maintained). Provision is made for audit of the accounts by the Auditor-General who is required to make a report on each audit to the Minister.

Exhibit  
No. 52/18.

Q.499.

114. The financial statements for the year 1958–59 were submitted to the Audit Office on 17th November, 1959, some two months later than in the previous two years. In a statement to the Committee dated 21st April, 1960, the Board said that it realized its responsibility for prompt submission of its accounts and regretted the delay that had occurred. However, the Board explained that the Accountant at the Hospital had resigned in July, 1959, and was not replaced until January, 1960. The Board continued—

Exhibit  
No. 52/18.

“Equally however (the delay) was due to a substantial deficiency in the strength of the administrative staff which, although that staff was working heavy overtime, was a heavy burden on the Secretary over this period.

This circumstance was brought to the attention of the Board at its September meeting and a request was immediately made to the Department of Health for a review of the administrative staff and methods of the Hospital by a competent officer.

This review was undertaken by the Department and the Minister subsequently approved an increase in the Administrative Staff from 15 to 20. Steps are now being taken to recruit this additional staff, and it is not anticipated that there will be any delay in submitting the Hospital's Accounts this year (1960).”

Q.483.

Four of the five additional positions approved are associated with accounting.



115. The Chairman of the Board, Mr. A. Harris, told us that the Board was not satisfied with the level of classification accorded some subordinate positions. He added—

(Mr. Harris) “. . . The Hospital Board is in a position of some difficulty, since it has a small organization situated in a locality in which there exists a very large organization, and which employs the greatest proportion of members of the community. The Hospital Board has quite acute problems in recruiting suitable staff particularly clerical staff, at lower levels. Because it is a small organization the hospital is not able to offer such a substantial career to young people. This means that we get very few competent male clerks.” Q. 487.

MEMBER: “There is keen competition in Canberra for qualified and up-and-coming young people?—(Mr. Harris) They can do very much better by joining the public service.” Q. 488.

Mr. Harris suggested that the situation would be improved if, in fact, there was a free interchange of staff between the Hospital and the Public Service; an alternative solution he put forward was to add weightings to the Hospital salary classifications. Qs. 494, 495.

116. In his Supplementary Report for the year ended 30th June, 1956, (paragraph 16), the Auditor-General referred to arrangements agreed upon for Audit Officers and the Minister's departmental advisers to confer with the Hospital authorities on the form of the annual accounts and the introduction of satisfactory stores controls. He continued—

“Arrangements have now been made by the Hospital Board for remedial action to be taken to introduce adequate financial statements and records of buildings, furniture and equipment and a proper procedure for stores. Examination is also to be made with a view to the introduction of costing as an aid in the control of the usage of food-stuffs, &c.”

117. In his 1956–57 Supplementary Report, the Auditor-General reported that “very little progress has been made in giving effect to the Board's proposals” and in the 1957–58 Report that “. . . it (was) expected that appropriate annual financial statements (would) be produced for the financial year 1958–59”. In fact this did not occur but the Auditor-General informed us that he had been assured by the Chairman of the Hospital Board that statements in the form of a balance sheet and income and expenditure account would be prepared in respect of the year ended 30th June, 1960. Q. 500.

118. The Chairman of the Board, Mr. Harris, told us that a very serious attempt had been made to prepare annual accounts in the new form as at 30th June, 1959. However the shortage of staff that then existed coupled with problems which had arisen in the valuation of assets had prevented this. Q. 501.

119. *Conclusion.*—Both matters which Your Committee considered in relation to the Canberra Community Hospital appear now to have been satisfactorily resolved. The Auditor-General, in his Supplementary Report for 1959–60, dated 7th October, 1960, was able to report that financial statements for 1959–60 in the form of a Balance Sheet supported by an Income and Expenditure Statement, had been furnished by the Hospital Board.

120. As already recorded, the Chairman of the Hospital Board (who is also an officer of the Department of the Treasury) considered that under existing arrangements, the Board was at some disadvantage in recruiting administrative staff in competition with the Public Service. This is a matter which might be investigated jointly by the Hospital Board, the Department of Health and the Public Service Board to establish whether there is need and scope for some variation in the arrangements by which, or the conditions under which, the administrative Branch of the Hospital is staffed.

#### CHAPTER VI.—POSTMASTER-GENERAL'S DEPARTMENT.

121. In paragraph 55 of his Supplementary Report, the Auditor-General said—

“Closing of 1958–59 Accounts.

Audit examination of departmental closing entries for the financial year revealed that amounts totalling approximately £500,000 in respect of postal and telephone revenue collected in 1958–59 were not transferred from the Money Order Account to the Consolidated Revenue Fund until July, 1959. As a result, the revenue of the Department for the year 1958–59 as shown in the Treasurer's Statement is understated by that amount.

It was also observed that there was inconsistency as between State Branches in the manner of charging stores expenditure against the appropriation at the close of the financial year. In some cases, the departmental action was designed to defer the recording of expenditure until funds became available in the next financial year.

The department recently submitted explanations in regard to these observations and indicated the action being taken to improve and make uniform its accounting procedures.”

The comment thus referred to two kinds of transactions, affecting respectively revenue and stores.



122. We obtained from the Postmaster-General's Department a formal explanation of the matters raised by the Auditor-General who also provided us with a statement elaborating upon his comments. Public hearings were conducted on 2nd May, 1960, when we were assisted further by evidence from the Auditor-General, Mr. H. C. Newman, C.B.E., Mr. E. W. Easton, Assistant Director-General, Postmaster-General's Department and Mr. C. L. S. Hewitt, First Assistant Secretary, Department of the Treasury.

123. *Revenue.*—Section 26 of the Audit Act provides that all moneys received by Postmasters for transmission by money order or otherwise under the Posts and Telegraph Act and for charges and commission in relation thereto shall be kept in a separate account called the "Money Order Account". The Section also requires the Postmaster-General, at the end of each month or oftener if required to do so by the Treasurer, to pay into the Commonwealth Public Account all moneys so received as revenue.

124. For many years (neither the Postmaster-General's Department, the Audit Office nor the Treasury could inform us of the origin of the procedure) it has been the practice in the Post Office, in the closing stages of each financial year, to transfer from the Money Order Account to the Commonwealth Public Account not actual collections but estimates of these collections. In explanation the Department, in its formal submission to Your Committee, dated 28th January, 1960, said—

Exhibit  
No. 52/30.

" . . . The amount of £500,000 referred to by the Auditor-General in his Supplementary Report, which was not transferred from the Money Order Account to the Consolidated Revenue Fund until July, 1959, included £365,000 telephone and £115,000 postal receipts.

It is pointed out that revenue over the last days of the financial year, spread over close on 10,000 offices, can only be brought to account on an estimated basis. In many instances, the actual receipts would not be known at the central accounting point until after the close of the financial year. In 1958–59, the position was particularly difficult to assess accurately because actual receipts for June, as known finally, included an exceptionally high figure £750,000 for telephone accounts not due for payment until July but paid very late in June.

The normal practice is for the Accountant to assess possible receipts for the last trading days, in those cases where precise figures are not available, on an estimated basis.

There has been a tendency for the Accountants, not without justification having regard to the need to maintain the solvency of the Money Order Account, to make conservative estimates of these transfers and this has been the practice, not only in June, 1959, but also on previous occasions. For instance, in 1957–58, actual receipts exceeded the estimated transfers by more than £250,000 for telephones and by £88,000 for postal . . . "

Exhibit  
No. 52/16.

We were told by the Auditor-General that not only were some of the estimates much too conservative but there were other instances where there appeared to be no valid reason why collections which were actually known were not paid into Revenue before the end of the financial year.

Q. 901.

125. The Treasury representative, Mr. Hewitt, informed us that he had not been aware of the estimating procedure although the Treasury had sought to take up with the Post Office the delays in payment from the Money Order Account to the Public Account.

Post Office  
memorandum  
G250/6/11  
of 27th June,  
1960.

126. At the public hearings on 2nd May, 1960, Your Committee established that the estimating procedure was unnecessary and does not appear to be in accordance with section 26 (3) of the Audit Act and that there was no reason why the revenue of the Post Office should not be dealt with at the end of the financial year in the same way as other revenue of the Commonwealth, i.e., on the basis of actual collections. As a result, following discussions between the Post Office, the Audit Office and the Treasury, an instruction designed to achieve this was issued within the Post Office prior to the closing of the 1959–60 accounts.

127. This case serves to illustrate how an unnecessary procedure, through long standing use, can be accepted without question. It emphasizes the need for Departments, critically to analyse established practices and procedures from time to time, to ensure that their continuance is essential.

128. *Stores.*—Stores transactions of the Post Office are conducted through the Post Office Stores and Services Trust Account. Speaking in broad terms, expenditure on stores purchases is firstly a charge against the Trust Account; debits against Parliamentary appropriations are made when stores are issued to jobs, corresponding credits being recorded in the Trust Account. Conversely stores returned from jobs to store will result in a credit to an appropriation and a debit to the Trust Account.

129. The comments of the Auditor-General concerned—

- (i) the issue of stores prior to the close of the financial year which were not debited against parliamentary appropriations until the following year; and
- (ii) the recording of returns to store before the close of the year (thus reducing charges against parliamentary appropriations) which were not matched by the physical transfer of goods to the store.



The Auditor-General said that the transactions “. . . . appeared to be designed for the purpose of deferring the recording of expenditure until funds became available in the next financial year; that is the transactions were recorded (or not recorded) to prevent over-expenditure of funds . . . .” Exhibit No. 52/31.

130. The Post Office claimed as proper its actions in all the cases brought to our notice except one in Western Australia involving equipment valued at £41,870. In regard to the latter, Mr. Easton said— Q. 936.

“. . . As to the Western Australian case, we have been very concerned about some aspects of it and the officers concerned have been suitably admonished.” Q. 923.

131. The desirability or otherwise of the Post Office having available to it the facility to make adjustments of the nature reported by the Auditor-General is a matter which we expect will be fully considered when the committee of inquiry proposed in paragraph 204 of Your Committee's Thirty-Fourth Report, on the Trust Fund, examines in detail the advantages and disadvantages of the Postmaster-General's Department conducting its stores accounting without the use of a trust account. Ref. P.P. No. 69 of 1957.

#### CHAPTER VII.—DEPARTMENT OF CIVIL AVIATION.

132. Your Committee's investigations were concerned with the delay which occurred in the occupation by the Department of Civil Aviation of leased accommodation at 123 Latrobe-street, Melbourne. Evidence in public was taken on 2nd May, 1960, from—

Audit Office .. ..	.. Mr. H. C. Newman, C.B.E., Auditor-General for the Commonwealth.
Department of the Treasury ..	.. Mr. H. S. Amos, Chief Finance Officer.
Public Service Board ..	.. Mr. E. S. Lightly, Assistant Commissioner.
Department of the Interior ..	.. Mr. J. M. Brown, Chief Property Officer.
Department of Civil Aviation ..	.. Mr. R. D. Phillips, Assistant Director-General. Mr. B. Lewis, Director of Finance and Stores.
Department of Works ..	.. Mr. G. J. Towers, Construction Manager.

133. In paragraph 152 of his Annual Report for 1958–59, the Auditor-General said—

“The first floor of a building in Melbourne has been occupied since May, 1957, under lease by the Department of Civil Aviation.

Early in 1956 the Commonwealth negotiated for the owner of the building to erect a second floor, and obtained permission to instal partitions, &c., while the owner was carrying out this work. The second floor was handed over to the Commonwealth in December, 1957, from which date rental at £8,056 per annum became payable. At that stage work necessary to provide suitable accommodation had not commenced. In November, 1958, part of the area was occupied by the Department but the whole area was not effectively occupied until February, 1959.

The long delay in bringing the accommodation to a stage where it was ready for occupancy was caused mainly by a lack of co-ordination between the departments concerned in the negotiation, planning, construction and occupation of rented accommodation.

This lack of co-ordination has resulted in payment of approximately £8,700 in rental for accommodation which was not effectively occupied by the Commonwealth.”

134. In the view of the Treasury as well, there had been lack of co-ordination between Departments while the Public Service Board considered that the office space had remained out of effective use for an “. . . . unreasonably long period”. In September, 1959, the Treasury, following discussions with the Public Service Board, issued a Circular to all Permanent Heads and Chief Officers drawing attention to this case, saying—

“. . . . In one particular case newly leased premises remained unused for a period of over twelve months for which rental of about £10,000 was incurred. During this time important questions affecting several Departments arose. However, the course of action to resolve these matters suggests that the loss of funds occasioned by unnecessary delays was not fully appreciated. Exhibit No. 52/27.

The matter is now brought to your attention with a request that suitable action be taken to prevent avoidable losses arising in your Department from this cause.

Should cases arise where, from causes outside your control, premises of your Department are remaining vacant without good reason, a report should be furnished to this Department.”

135. 123 Latrobe-street is a privately owned building consisting of a basement, and ground, first and second floors. In April, 1956, the Department of the Interior reached agreement with the owner for the occupancy, by the Victorian Regional offices of the Department of Civil Aviation, of the first floor of the building and of a new second floor (providing approximately 6,000 square feet of floor space) construction of which had not then commenced. Q. 801.  
Exhibit No. 52/25.



136. In February, 1957, when the second floor was under construction by the owner, the Department of Civil Aviation was able to forward to the Department of Works for estimating purposes, plans of the proposed layout of the second floor. However, in March, 1957, the owner of the building revised his plans for the second floor and this resulted in a further 5,000 square feet becoming available for lease. The Department of Civil Aviation decided to seek approval to lease this additional space to house the Reproduction and Photographic sections, as well as the Drawing Records, of the Division of Airways Engineering.

137. A period of over five months then elapsed before Civil Aviation obtained the necessary approval. The period was taken up as follows:—

20th March, 1957	..	Department of Civil Aviation requested Department of Interior (Melbourne) to lease the additional space.
30th April, ..	..	Having reached agreement with the owner, Interior (Melbourne), through Interior (Canberra), submitted the proposal to the Minister for the Interior for approval.
7th May ..	..	The Minister approved the proposal subject to funds being provided.
13th May ..	..	Interior approached Treasury for funds.
20th May ..	..	Treasury requested additional information in support of the proposal.
28th May ..	..	Interior (Canberra) requested Interior (Melbourne) to obtain the additional information.
4th June ..	..	Interior (Melbourne) approached Civil Aviation.
2nd July ..	..	Civil Aviation provided additional information to Interior (Melbourne)
17th July ..	..	Interior (Melbourne) reported to Interior (Canberra)
25th July ..	..	Report passed to Treasury by Interior (Canberra).
12th August	..	Treasury informed Interior that funds would be provided.
21st August..	..	Interior (Canberra) informed Interior (Melbourne).
27th August, 1957	..	Interior (Melbourne) informed Civil Aviation that it was in order to proceed with the lease.

It is readily apparent from this chronological record that a substantial reduction in the period taken to provide the necessary approvals to Civil Aviation could have been effected had some degree of urgency been associated with this matter by all three Departments concerned.

138. In the meantime, the Department of Civil Aviation had been planning the layout of the second floor. In June, the owner of the building raised objections to the proposed location of the Reproduction and Photographic Section and revision of the layout plans became necessary. These were completed late in September and were forwarded to the Public Service Inspector for approval on 11th October, 1957. The Inspector's approval was given on 18th December, 1957.

Exhibit  
No. 52/26.

139. The Public Service Board agreed that there was a longer delay than usual between the receipt of the partitioning plan by their Inspector and the issue of his approval. The Board said this was due to the necessity for several conferences between the Inspector and the Departments of Civil Aviation and Works before final agreement was reached. In elaboration, the Board's representative said in evidence before us—

Q. 761.

(Mr. Lightly) “. . . (The Inspector's) interest in the matter stems from the need to ensure that adequate, but not more than adequate or inadequate, space is provided for each officer . . . There was a difference of opinion between the Public Service Inspector and the Regional Director as to whether certain categories of officers needed all the space that was allotted to them on the original plan. The Public Service Inspector was interested also in ensuring that the partitioning used in this building was of such a nature that it was demountable and could be used if and when the Department of Civil Aviation, and this office in particular, perhaps moved to the present Commonwealth centre or some future Commonwealth centre. He was interested in ensuring standardisation of partitioning, and it was mainly through differences of opinion between the Public Service Inspector and the Regional Director on these matters and on matters of lay-out of some of the offices that this delay occurred.”

As from 11th December, 1957, the Commonwealth commenced to pay rent for the second floor.

Exhibit  
No. 52/28

140. On 4th November, Civil Aviation had submitted the revised layout plans to the Department of Works for an estimate of cost. Because Civil Aviation, in this particular memorandum, did not indicate a degree of urgency for the work, Works did not accord a special



priority to the task. We were told that such a priority would have reduced the time lag in producing the estimates by approximately four weeks. Works provided Civil Aviation with an estimate on 24th January, 1958, but further detail was required by Civil Aviation, this being supplied on 20th February. With little or no delay, Works proceeded with the preparation of detailed drawings and specifications. However, this work was soon interrupted for approximately six weeks because of modifications necessary to the type of demountable partitions which had been selected for installation.

141. The main items of work to be done were building alterations and partitioning, the cost of each being a little over £8,000. Miscellaneous items accounted for a further £8,000. Tenders were invited on 7th May but because of lack of interest by builders, Works decided to delete partitions from the specifications and to recall tenders. A tender for the building alterations was accepted on 3rd July, and one for partitioning on 7th July, 1958. In the construction stage delays again occurred mainly due to—

- (i) the electrical contractor originally engaged withdrawing from the job; and
- (ii) delays on the part of the partitioning contractor, which impeded the work of other contractors.

The first section of the floor was occupied by Civil Aviation in November, 1958, and the last on 28th February, 1959, some fourteen and one half months beyond the date from which the Commonwealth commenced to pay rent.

142. The evidence discloses that the decision to use the type of demountable partitioning then being erected in the Commonwealth Centre, Melbourne, precipitated much of the delay which occurred in the design, tender and construction stages. We discussed this with the representative of the Department of Works. See also paragraphs 139–141 above.

(Mr. Towers) “. . . it is the department’s policy to recommend to departments which lease premises or rent premises, particularly those which are going into a future Commonwealth block, to use a demountable type of partition. When we forwarded our estimate, it included figures for two different types, one of which Civil Aviation was already using on the first floor and the other of which was for what we now call the Commonwealth centre type, which we suggested. It is a little more expensive but has a larger recovery value, and we suggested that Civil Aviation use it in this instance . . .” Q. 773.

MEMBER: Why is it used?—(Mr. Towers) It is used because it is very readily demountable and can be used again in a different location. Q. 775.

(Mr. Towers) “. . . at this time the Commonwealth centre planning was ‘on the go’ and (it had been) suggested that all future partitioning for departments likely to go to Commonwealth centre should be of this type which had been approved for use in Commonwealth centre.” Q. 777.

MEMBER: Why all the delay at the time of construction . . . ?—(Mr. Towers) We were promised by the suppliers very good deliveries. Unfortunately, they did not keep their promises. Q. 779.

MEMBER: It seems that most of the delays in construction stem from the choice of aluminium partitions?—(Mr. Towers) Yes, that is pretty well the situation. Q. 780.

MEMBER: And your department accepts responsibility for selecting that type of partition?—(Mr. Towers) Yes, our department certainly recommended that this partitioning be adopted, keeping in mind that it has a recovery value in this particular case of £6,000. Q. 781.

MEMBER: It seemed unfortunate that you should have selected this rare type of partitioning in this case when the matter had been delayed by other causes before then?—(Mr. Towers) Yes. Q. 784.

143. The Department of Civil Aviation said—

“. . . The contractor engaged in the erection of office partitions was concurrently doing similar work for the very large Commonwealth Centre at the corner of Spring and Latrobe Streets, Melbourne, and on these occasions when conditions of short supply of some materials existed this job took precedence over the work at 123 Latrobe Street, further delaying its completion . . .” Exhibit No. 52/25.

144. *Conclusion.*—In retrospect it is easy to see the deficiencies in decisions and actions which may have appeared eminently reasonable and proper at the time they were taken. But the level of government activity is such that minor breakdowns in administrative machinery or errors in judgment can be expected to occur from time to time. What is important is that, when such breakdowns or errors occur, they should be recognized and remedial action taken. In this instance that has happened and further comment by Your Committee is hardly necessary. See paragraph 134 above.



## CHAPTER VIII.—DEPARTMENT OF THE INTERIOR.

## (a) INTRODUCTION.

145. The comments of the Auditor-General considered by Your Committee concerned, in the main, the form of the accounts which had been kept by the Department of the Interior in respect of a number of activities in Canberra. These activities were—

1. Forestry.
2. Transport.
3. Brickworks.
4. Electricity Supply.
5. Hotels and Guest Houses.
6. Housing.

146. Public hearings were conducted on 29th April, 10th and 17th May, 1960, at which evidence was taken from the following persons:—

Department of the Interior	..	Mr. W. A. McLaren, C.B.E., Secretary. Mr. B. W. Birch, Administrative Assistant.
Audit Office	.. ..	.. Mr. H. C. Newman, C.B.E., Auditor-General for the Commonwealth. Mr. F. A. Johnston, Chief Auditor, Canberra. Mr. C. A. Harrington, Senior Audit Inspector.
Department of the Treasury	..	.. Mr. L. B. Hamilton, First Assistant Secretary.
Public Service Board	..	.. Mr. E. S. Lightly, Assistant Commissioner. Mr. P. A. Nott, Inspector.

(b) THE RESPECTIVE RESPONSIBILITIES OF THE AUDITOR-GENERAL, THE TREASURY AND THE SECRETARY, DEPARTMENT OF THE INTERIOR IN RELATION TO THE FORM OF SUBSIDIARY ACCOUNTS.

147. A fundamental question considered in this inquiry was upon which authorities rested the responsibility to determine the form and nature of the subsidiary accounts which should be maintained by the Department of the Interior in respect of these various activities. It is not the responsibility of the Auditor-General to establish subsidiary accounting systems nor has he the authority to direct that such systems be introduced. However, he has the right to put forward plans and suggestions which must be considered and dealt with by the Treasurer. Section 54 of the Audit Act provides—

“The Auditor-General may in such yearly report or in any special report which he may at any time think fit to make recommend any plans and suggestions for the better collection and payment of the public moneys and any improvement in the mode of keeping the public accounts and generally report upon all matters relating to the public accounts public moneys and stores, and such plans and suggestions shall be considered and dealt with by the Treasurer.”

148. The function of the Secretary, Department of the Interior as a Permanent Head is defined in sub-section (2) of section 25 of the Public Service Act which reads—

“The Permanent Head of a Department shall be responsible for its general working, and for all the business thereof, and shall advise the Minister in all matters relating to the Department.”

Thus the responsibility for the proper financial management of his Department rests with the Secretary, Department of the Interior (but that responsibility is undoubtedly confined to matters within the jurisdiction of the Department). It would be reasonable to expect the Secretary to consider fully any comments and suggestions made by the Auditor-General but he must be conceded the right of rejection if he is not in agreement with them.

149. We have noted already the statutory responsibility of the Treasurer to deal with plans and suggestions put forward by the Auditor-General within the terms of section 54 of the Audit Act. The question arises as to what power the Treasurer and/or the officers of his Department have to put into effect proposals of the Auditor-General relating to Departments, when these proposals concern accounts subsidiary to those required under the Audit Act. Section 16 of the Act provides—

“Every accounting officer shall be subject to the provisions of this Act and the regulations and shall perform such duties keep such books and render such accounts as are prescribed by this Act or by the regulations or as the Treasurer may direct.”

Regulation 127 under the Act reads:—

“(1.) The accounts kept by the various Departments shall be subsidiary to the system of Treasury accounts.”

(2.) . . . . .

(3.) Subject to the Act and these Regulations, in all matters of receipt and payment of an accounting for public moneys, directions issued by the Secretary, Department of the Treasury, shall be followed.”



In April, 1954, in the Twelfth Report (paragraph 58) on the Postmaster-General's Department, Your Committee expressed doubt whether these provisions were so wide as to give the Treasury authority to stipulate that a set of accounts, secondary to the Treasury cash accounts, should be kept and in what form. In paragraph 58 of that Report Your Committee said that ". . . . as a desirable feature of financial administration, the Audit Act should provide power to the Treasurer to specify the form of subsidiary accounts of Commonwealth Departments." Later, in paragraph 480, Your Committee concluded—

" . . . The scope of regulation 127 (3) (under) the Audit Act should be reviewed and, if necessary, amended, to ensure that the Treasurer possesses the power to prescribe the Form of the subsidiary accounts of Commonwealth Departments."

150. In the Treasury Minute on the Twelfth Report, dated 7th February, 1955, the Treasury said—

"The Treasury agrees with the Committee's views that legislative authority should be obtained to remove any possible doubt concerning the power of the Treasurer to approve the form of commercial and subsidiary accounts. The Treasury also agrees with the Committee's conclusion that the Department's Commercial Accounts should be audited by the Auditor-General. These matters are being dealt with in the general revision of the Audit Act and Treasury Regulations which is now in progress."

Nineteenth  
Report  
P.P. 97 of  
1954-55,  
para. 6.

Similar statements have since appeared in the Treasury Minutes on the Thirty-Second and Thirty-Third Reports, dated respectively 24th April and 7th October, 1959. However, it is the understanding of Your Committee that, until very recently, the Treasury had taken little action to put into effect the stated intention of 1955 to obtain legislative authority to remove what doubts there have been in this matter.

151. There is, of course, at present no provision which specifically prohibits the Treasurer or the Secretary, Department of the Treasury, from issuing directions regarding subsidiary accounts and their form. Moreover, the Secretary, Department of the Interior, accepted, as did also the Auditor-General, that the Treasurer (or his delegate) was empowered under section 16 of the Audit Act to issue directions regarding subsidiary accounts and their form and so informed the Audit Office and the Treasury. Thus, there was in effect no practical impediment to the issue to "accounting officers" of the Department of the Interior, of directions regarding the subsidiary accounts which had been the subject of comment by the Auditor-General.

Q. 141.

(Committee  
Document  
A.G.R. 51.)

152. Although it appears that no directions as such were formally issued by the Treasurer (or his delegate) under section 16, in fact in one instance the Treasury specifically requested the Department of the Interior to prepare certain financial statements and the Department accepted the request as a direction under section 16, and acted accordingly.

Q. 380.

See para.  
186 below.

153. Mr. McLaren left no doubt as to his attitude in the matter. He said—

(Mr. McLaren) "The attitude I have adopted is this: Where there is a difference of opinion, in the absence of any direction from the Treasurer as to the accounts that should be kept, I have the responsibility, under section 25 of the Public Service Act, for the general working of the department. We have heard all this evidence about different bodies having doubts as to their authority to give any instructions. I have made it clear right from the start that the Auditor-General can, in his report under section 54 of the Audit Act, submit plans and suggestions to the Treasurer relating to certain matters concerning the yearly statement prepared by the Treasurer, and that the Treasurer shall deal with those plans and suggestions. In the absence of any effort by the Auditor-General to submit his plans and suggestions . . . . to the Treasurer, and in the absence of any action by the Treasurer to deal with them, then I say the responsibility is mine. If the responsibility is mine I submit in all fairness that I should have the authority to make my own decision about it. After all, what is a permanent head? . . . . has he got any authority or responsibility? I say he has, in the absence of directions given by constituted authority, or what I believe to be constituted authority. If it is my responsibility I think it is reasonable that my authority should be respected, until a direction is given by a competent authority . . . ."

Q.1605A.

154. By and large Mr. McLaren, in the absence of directions under section 16, was concerned to ensure only that the accounting forms adopted in any particular case met the requirements of the law and were adequate for management purposes within his Department, having regard to the limits of the Department's responsibility. This is illustrated in advice he forwarded to the Treasury in November, 1958, concerning the accounts for Australian Capital Territory Housing. After drawing attention to the absence of any prescription or direction under the Audit Act in relation to these accounts and to the responsibilities of the Permanent Head under section 25(2) of the Public Service Act he said—

See paras.  
195-197  
below.

" . . . I have already advised the Chief Auditor that this Department does not require, for the purpose of management, financial statements additional to those now prepared.

(Committee  
document  
A.G.R. 51),  
Appendix G.



If you consider the preparation of additional financial statements in relation to this Department's housing activities are necessary for your requirements, for any purpose of the Government, or to comply with suggestions by the Joint Committee on Public Accounts, the course appears for your Department to issue a direction specifying the nature of any statements required."

It was evident that Mr. McLaren was most conscious of the costs and staffing aspects associated with the preparation of additional accounting information and statements and considered that he should not incur additional expenditure on accounting, which he considered unnecessary for the management of his Department, unless there was a specific direction or requirement for his Department so to do.

(c) FORESTRY—AUSTRALIAN CAPITAL TERRITORY.

155. In paragraph 60 of his Annual Report for the financial year 1958-59, the Auditor-General said—

"The Australian Capital Territory Forestry Trust Account, established under section 62A of the Audit Act, records transactions relating to forestry in the Territory.

Receipts of the Trust Account during 1958-59 amounted to £196,658, comprising:—

	£
Sale of timber, firewood, &c. . . . .	126,658
Parliamentary Appropriations—	
Division 64, Item 1—Capital Works and Services . . . . .	70,000

Payments from the Trust Account totalling £180,932 were made during 1958-59. In addition to the appropriation under Capital Works and Services, Division 64, Item 1, transferred to the Trust Account, £880 was expended from Capital Works and Services, Division 64, Item 4, on the purchase of plant and equipment for forestry activities.

The lack of adequate accounting procedures for the activities, and of satisfactory annual financial statements has been referred to in previous Reports.

It should not be necessary to draw attention, year after year, to the absence of adequate accounting procedures. The time for firm action to remedy the unsatisfactory state of affairs is long overdue."

There has been a separate Forestry Trust Account since 1st July, 1955. In his report for 1955-56, the Auditor-General commented as follows:—

" . . . It has been represented to the Department by my officers that prudent accounting for trading ventures such as this requires a yearly matching of true costs of operation against revenue properly creditable; a statement of invested costs and liabilities; and that this practice affords a necessary complement to the physical control of the venture.

The Department's attitude is that such financial statements in relation to this Forestry activity are not required by law, are of no value to the operating forester, and absorb time which the Accounts staff could well use on other and important work.

This attitude is not compatible with the principles enunciated in the Fifth Report of the Parliamentary Joint Committee of Public Accounts relative to industrial undertakings of the Department of Works. In that Report the Committee recommended preparation of satisfactory balance-sheets for industrial undertakings and that the annual accounts of such undertakings should be submitted to the Auditor-General for audit and comment in his Annual Report.

The present accounting system does not correctly record, inter alia, the value of the assets such as buildings and structural improvements, plant and machinery, and growing timber; depreciation of assets is not provided for; and the annual financial results of operations are not shown."

156. We sought from the Department of the Interior a formal explanation of these comments of the Auditor-General. We were advised in a statement—

"This is another instance of differing opinions of the Audit staff and the Department on the form of accounts which should be maintained.

Some years ago certain financial statements were prepared in respect of the A.C.T. Forestry operations including one which purported to be a Balance Sheet. Generally the statements were inaccurate and without meaning. They were intended to show the cost of establishment of the forests by an accumulation of capital and revenue expenditures over the years. However, it was found that no deductions were made for depreciation or forest losses through fires, disease, insect pests, etc.

After discussion with the Director-General of Forests it was decided that the only financial statements of any value to the Forestry Officer in charge of the A.C.T. forests were the monthly statements of expenditure and receipts for each forestry unit coming within the scope of the Forestry Trust Account. There is no statutory requirement to prepare any particular statement.

The preparation of a Balance Sheet which would be in any respect accurate would be impracticable without a very considerable volume of work in dissecting expenditure over the past 40 years. One serious problem would be satisfactorily to decide the depreciation to be allowed on the accumulated cost of plant, machinery, tools, and structural improvements over that period.



Both the Treasury and the Audit staff are well aware of the Department's view, that the financial records maintained in the Department are regarded by the Department as entirely adequate for the purposes of management of the forests.

As far back as October, 1956, the Secretary of the Department of the Interior wrote to the Treasury in the following terms in reply to a query from that Department as to what action was intended to introduce a proper system of accounts for the A.C.T. Forestry undertaking, as suggested by the Auditor-General (in his report for the year ended 30th June, 1956):—

'If it is clear that your officer has the authority to insist on the keeping of accounts which I, as Permanent Head, have directed shall not be kept because I regard them as unnecessary and serving no useful purpose, then I shall be glad of advice as to what a proper system of accounts for the A.C.T. Forestry undertaking would be. Incidentally, I have never been able to get a clear picture of this from the Auditor-General or his officers.'

To date no reply has been received in the Department of the Interior to this letter.

It would be competent for the Treasurer to issue a direction under section 16 of the Audit Act as to the nature of the accounts which should be maintained. No such direction has been notified to the Department of the Interior."

157. The matters relating to Forestry were briefly discussed at the hearings on 29th April, 1960. From the evidence then adduced it appears that, following the advice from Interior, of October, 1956, and despite further references by the Auditor-General in his 1956-57 and 1957-58 reports, the Treasury took no further action in the matter until so asked by the Auditor-General by letter in June, 1959.

Q. 197.

158. On 7th October, 1959, at the instigation of the Treasury, representatives of the Treasury, the Audit Office and the Public Service Board met to discuss the form of accounting appropriate for Australian Capital Territory Forests. No finality was reached and the conference ended on the note that the Treasury would initiate further action. On 18th March, 1960, after discussion between the Audit Office and the Treasury, the Acting Secretary to the Treasury, Mr. R. J. Randall wrote personally to Mr. McLaren in the following terms:—

Exhibit  
No. 52/11.

Q. 198.

"The Auditor-General has brought to our notice your disagreement with his views regarding the accounting statements which should be prepared to record the financial results arising from forestry activities in the Australian Capital Territory. In response to his request that Treasury take action to resolve the matter, we undertook to approach you with the object of reaching a satisfactory solution during this financial year. As you are aware, this question has been the subject of adverse comment by the Auditor-General in several of his reports to Parliament.

Exhibit  
No. 52/14.

Since then Treasury has given some attention to this problem with a view to formulating proposals that might provide a basis for our further consideration. As a result, a draft set of accounting statements which I understand would meet the Auditor-General's requirements, has been produced.

I am attaching a copy for your consideration in the hope that you will be able to agree to the preparation by your Department of statements on these lines each year. If this proves to be so, then I suggest any modifications of a detailed nature which you may wish to put forward can be settled in discussion between our officers.

However, should you have other views, then I propose that we should meet with the Auditor-General at a mutually convenient time for the purpose of resolving this issue. Perhaps I should add that as the Commonwealth has well over £1,000,000 invested in A.C.T. forests, it is important that the accounting arrangements for forestry transactions should be satisfactory particularly from the audit viewpoint."

On 8th April, 1960, Mr. McLaren replied as follows:—

"Thank you for your letter of 18th March, 1960, in which you suggest that I might consider arranging for the preparation each year of certain financial statements relating to forestry activities of the Department and described in the papers accompanying your letter as an 'Income and Expenditure Account' and a 'Balance Sheet'.

In a covering note it is suggested that the accounts maintained should be in line with conventional accounting procedures. The basic data required is shown in the brief pro formas following. It is stated that 'the main considerations are that the financial results of the undertaking should be ascertained'.

Finally, it is suggested that 'accounts would be kept in respect of each separate identifiable forest area (preferably for each year's planting) and consolidated statements prepared to show overall results'.

I must say at once that I would be reluctant to arrange for the preparation by the Department of statements in the form you suggest, for these reasons—

They are not in line with conventional accounting procedures, indeed they seem to offend recognized principles of accounting in many ways. For example, the draft 'Income and Expenditure Account' does not follow any recognized form known to me inasmuch as it combines in the one statement income and expenditure both of a capital and revenue nature. Consequently, I find it hard to imagine what meaning could be attached to a balance on such an 'account'.



Furthermore, the effect of including capital items in such an 'account' is to close off all asset and capital accounts at the end of each year, leaving no balances to be carried to a Balance Sheet.

In the circumstances I think it desirable that I should discuss the matter with the Auditor-General and you, or your representative, at a time to be arranged by you."

159. It was the intention of Your Committee to pursue this matter further at the hearings on 10th May, 1960. However, on 5th May, 1960, the Secretary to the Treasury, Sir Roland Wilson, Mr. McLaren and the Auditor-General, Mr. Newman, conferred and agreement was reached to seek from the South Australian Government, the services of a suitable State officer to assist in the examination of the problem which had arisen in regard to Forestry accounting. In the light of these arrangements Your Committee were asked whether we would postpone our inquiries; this we agreed to do.

Q. 1231.

160. As at 14th September, 1960, considerable progress had been made in the departmental investigations which were continuing.

161. *Conclusion.*—In a formal statement to Your Committee dated 28th April, 1960 the Treasury said—

Exhibit  
No. 52/12.

" . . . Treasury is of the view that, for housing and forestry, the preparation of adequate accounting statements on commercial lines (in supplementation of the ordinary cash accounts) is essential if the Government and the Parliament are to be kept informed of the financial results of the policies which are being followed, and for the review and formulation of policy.

However, Treasury has refrained from recommending to the Treasurer that he direct the keeping of such accounts (the Department of the Interior has stipulated that such a direction is a pre-requisite to its taking action) because it considers that this course should not be taken until every other means of resolving the matters at issue has been exhausted. . . ."

162. The lack of action on the part of the Treasury between October, 1956, and June, 1959, to resolve the problems which had arisen in regard to Forestry accounting is not to the credit of that Department. The progress that has been made since March, 1960, when the Acting Secretary first wrote to the Secretary, Department of the Interior, is an indication of what might have been achieved some three and one-half years before had the Treasury accepted the responsibility it has in matters of this nature.

163. To place this matter in its proper perspective it is appropriate to record the views of the Public Service Board on the accounting needs for the Forestry undertaking in the Australian Capital Territory. The views expressed indicate the very real problems associated with the determination of a suitable form of accounts which might justify the expense and effort involved in their collation.

Exhibit  
No. 52/11,  
Appendix B.

" *General Views on Accounting Needs.*—At this stage, no firm views are held on the form of accounts necessary for the forestry undertaking. It is obvious that there are inadequacies and inaccuracies in the information available from the present accounting records. Closer investigation is needed, however, of these shortcomings, of the policies governing forestry activity, of the manner in which the policies are determined and executed, of the use made by the forester of the financial information currently available, of the non-financial data available to management for the control of efficiency, &c. The forester is supposed to have a sound grounding in forestry economics as a part of his calling, and it is desirable that the system of accounts should be designed to complement this science rather than duplicate it unnecessarily.

Forestry accounting presents a number of problems not encountered in other business ventures. A Balance Sheet and trading and costing statements can be prepared which provide a mass of financial data on the liquidity and operations of the forestry undertaking. The matching of true costs and income over the life of the forest, and in successive stages of its life, as a means of determining the financial viability and economic return from the undertaking is, however, a more difficult venture. The difficulty stems basically from the slow and different rates of maturation of trees in the forests, and the difficulty of determining with sufficient precision for the purposes of financial accounting, the yearly incremental value of growth in the forest. It would seem that the measurement of profit from forest cultivation has generally been regarded as an academic exercise in forestry circles. These considerations have an important bearing on the form and content of the accounts necessary in relation to forestry activity.

In short, the form of accounting and financial statements most appropriate to the forestry activity seems to depend upon a closer ascertainment of the objectives associated with the establishment of forest areas in the Australian Capital Territory (e.g., soil conservation and protection of the water catchment areas the primary purpose or profitable return), the manner in which present financial data is used for management purposes, the value which would be derived from more comprehensive financial statements in relation to cost of preparation, and the difficulties associated with meeting the inadequacies and inaccuracies in existing records."



## (d) TRANSPORT SECTION, CANBERRA.

164. The Transport Section of the Department of the Interior in Canberra operates a car transport pool, heavy transport, a city bus service and a transport workshop. The transactions of the Section are financed through the Australian Capital Territory Transport Trust Account.

165. Commercial type accounts are maintained in respect of the undertaking. A consolidated Balance Sheet is prepared as well as two Profit and Loss Accounts, one in respect of Transport, the other in respect of the City Bus Service. In 1958-59 the revenue of the undertaking, including a bus subsidy of £62,000, approximated £642,000, net profit on Transport was £21,336 while the accounts disclosed a net profit of £2,906 on the City Bus Service after taking into account the subsidy. Exhibit No. 52/7.

166. In paragraph 6 of his Supplementary Report for 1958-59, the Auditor-General said in relation to the accounts of the Transport Section— P.P. 62 of 1959, page 7.

“The amended financial statements for 1957-58 referred to in my Annual Report are still not considered suitable for publication because they do not show correctly the amounts provided from Consolidated Revenue to finance losses. The other unsatisfactory features of the statements have now been corrected.

The 1958-59 financial statements have been examined. Amounts provided from Consolidated Revenue to finance losses are again shown in the same unacceptable manner as in the statements for 1957-58. The matter is still under discussion with the Department and the Treasury.”

167. The credit side of the City Bus Profit and Loss Account submitted to Your Committee showed two items only— Exhibit No. 52/7.

						£	s.	d.
Earnings	..	..	..	..	..	161,617	12	11
Subsidy	..	..	..	..	..	62,000	0	0
						<hr/>		
						223,617	12	11

It was the treatment of the subsidy in this manner and the inclusion only of the balance of the Accumulated Profit and Loss Account in the Balance Sheet that the Auditor-General found “unacceptable”. In other respects the accounts were satisfactory. Q. 260.

168. On 9th September, 1959, the Audit Office informed the Treasury of its views in this matter. The Treasury supported Audit, replying as follows on 24th September:—

“This Department agrees that the present form of presentation of the Trading and Profit and Loss Account for the Canberra City Bus Service is misleading inasmuch as the actual loss on operations (£70,783 4s. 10d. in 1957-58) is not shown. The subsidy provided from Consolidated Revenue Account should not be brought to account in the Profit and Loss Account until after the ‘Loss before Subsidy’ has been shown. Exhibit No. 52/15.

It is agreed also that the true position should be disclosed in the Balance Sheet: that is, that the Balance Sheet should show not only the net figure but the true accumulated loss less the accumulated subsidies from Consolidated Revenue Fund.”

It was the view of Audit and Treasury that the subsidy should be brought to account in the Profit and Loss Appropriation Account. Their proposed treatment in the Balance Sheet was as follows (using 1957-58 figures):— Q. 300.

Accumulated Profit and Loss Account—

					£
Accumulated Loss	..	..	..	Dr.	643,278
Less Subsidies received	..	..	..	Cr.	684,902
					<hr/>
					Cr. 41,624

169. In its formal comment the Department of the Interior said—

“The Canberra City Omnibus Service has had for many years the benefit of appropriations from Consolidated Revenue. Exhibit No. 52/4.

Up to 30th June, 1956, these votes were shown in the Estimates of the Department of the Interior (Australian Capital Territory) thus—

‘Transport—Loss on City Omnibus Service (for payment to credit of Australian Capital Territory Transport Trust Account).’

The Estimates for 1956-57 and since have shown the item as—

‘City Omnibus Service—Subsidy (for payment to credit of Australian Capital Territory Transport Trust Account).’

The amount of subsidy received by virtue of this appropriation is treated as revenue of the Omnibus Service and is shown in the Profit and Loss Account as ‘Subsidy’.



The Auditor-General and a Treasury officer think that the subsidy should not be included in the Profit and Loss Account which should be closed off so as to show loss on operations exclusive of subsidy. The Department does not accept the view which it considers is contrary to practice in the published accounts of organizations which are subsidized by external agencies."

170. We asked Mr. McLaren what had brought about the change in 1956-57 when the Appropriation Act showed the payment to the Trust Account as a subsidy and not as "Loss on City Omnibus Service" as previously. Amongst other things he said—

Q. 266. (Mr. McLaren) ". . . This was discussed years ago, this question of transport in Canberra, with the assistant Treasurer of the Treasury. It was in about 1949 or 1950. It was agreed that because of the dispersal of population and the lay-out of the city generally, and because of the fact that the paying public had no responsibility for the decision to plan the city in this way, some subsidy should be made by the Government. It was not until the 1956-57 year that the Treasury got around to recognizing this principle. It was previously voted as loss on city omnibus services."

Qs. 275 and 276. He told us also that in 1952 an investigation into the management, administration and operation of the Transport Section was undertaken by two experts, who included the following observations in their report:—

Q. 275. "Fares. The magnitude and persistence of the losses on the bus services has necessitated some consideration of the level of fares, and the ability of the users of the services to contribute more revenue. Whilst there are opportunities for reduction in operating costs, particularly by the more effective utilization of vehicles and labour, the present gap between costs and revenues is so wide as to force a conclusion that a chronic state of unprofitability is certain.

Q. 276. ". . . To a substantial extent the operating costs are affected by the deliberate dispersal of population in accordance with long-range plans for the development of the city, and the growth of population will not help unless the density is increased. It is felt that some further 'ability to pay' exists in the users of the bus services.

". . . The gap between revenue and operating costs may be met by subsidy, but in our opinion the present method is not satisfactory. The morale of the management of an undertaking which is faced with large and recurring losses is always undermined, and the basis upon which any subsidy is granted should give the management a reasonable opportunity to 'break even' by operating the services at a reasonable standard of efficiency."

Q. 290. Mr. McLaren contended that a privately owned bus service receiving a government subsidy would bring the subsidy to account in the profit and loss account. He did not agree that the manner in which the Transport accounts had been presented was misleading and indicated that he proposed to continue the form of presentation until he received a directive to do otherwise.

Q. 279.

Q. 280. 171. We were told that the subsidy was paid in advance and that, basically, it was the estimate of the gap that would occur in the year's transactions between fares at a rate accepted as reasonable and the estimated running costs.

172. *Conclusion.*—The difference of opinion which has existed in this matter reflects the difference in attitude of the respective parties to the payments from Consolidated Revenue. Interior consider the payments as a true subsidy, a grant-in-aid from the Government to enable an otherwise unprofitable service to be continued. Audit, on the other hand, regard them still as payments to finance or recoup losses, as they were classified in the Appropriation Act prior to the change in 1956-57.

173. The views of Your Committee are—

1. If payments to Commonwealth undertakings are designed to be subsidies in the sense that the Government pays subsidies to non-governmental bodies then it is not unreasonable to bring the subsidies to account in the profit and loss accounts as revenue of the undertakings. However the nature of such revenue and the source should be clearly disclosed.
2. If the payments are to finance or recoup losses then they should be brought to account after the loss has been determined in the profit and loss account.

We refer again to the change made in 1956-57 in the description of the appropriation concerned and comment that since then these appropriations have been proposed by the Government and granted by the Parliament specifically as subsidies in respect of the Canberra City Omnibus Service. We note too that, in certain other accounts, amounts in the nature of subsidies have been taken into account before a profit or loss has been determined without critical published comment from the Auditor-General. We refer in particular to the accounts of the Parliamentary Refreshment Rooms and the War Service Homes Division (Supplementary Report 1958-59, paragraphs 2 and 51). The accounts of Commonwealth Hostels Ltd. to which the Commonwealth made available £1,145,000 during 1958-59 as a contribution towards various costs, are probably another (Supplementary Report 1958-59, paragraph 59).



174. Following on our conclusion that it is appropriate for revenue by way of subsidy to be brought to account in the Profit and Loss Account, we do not support the method proposed by the Auditor-General and the Treasury for treating, in the Balance Sheet, the balance of the Accumulated Profit and Loss Account.

(e) CANBERRA BRICKWORKS.

175. In paragraph 58 of his Annual Report for 1958-59 the Auditor-General said regarding the Canberra Brickworks—

“ . . . As mentioned in my Annual Report for 1957-58, the financial statements received for 1956-57 contained errors of principle, particularly in relation to the disclosure of the amount of funds provided by the Commonwealth. Satisfactory financial statements for 1956-57, and subsequent years, have not yet been received . . . ”

The Department of the Interior took over control of the Brickworks from the Department of Works in 1952.

176. The Auditor-General's comments referred to three matters raised with the Department on 15th July, 1958—

1. Amounts totalling £91,000 which were made available to the Department by Ordinary Appropriation between 1952-53 to 1955-56 to cover losses on operations at the Brickworks and which the Department had taken into the Profit and Loss Appropriation Account. The Audit Office considered that the amounts were in the nature of working capital and should have been included in the Balance Sheet item “ Commonwealth Funds Employed in the Undertaking.”
2. The writing out of the accounts, assets of £81,411 associated with an abortive tunnel kiln project initiated before the Department of the Interior took over control of the Brickworks and the writing down by £23,552, of the value of other assets in the Balance Sheet. Corresponding amounts were written out of the item “ Commonwealth Funds . . . ”
3. The deletion of an amount of £2,150, which had been shown in the Balance Sheet for many years as the value of land held.

177. On 1st August, 1958, the Department replied to the Audit Office advising that—

1. The amounts totalling £91,000 were provided specifically to meet losses on operations during a period of rehabilitation of the Brickworks and reduced output, when it was accepted by the Treasury that losses would occur. In the same period other funds had been provided to the Brickworks by Capital Works and Services Appropriation specifically to increase working capital. Exhibit No. 52/4.
2. As none of the tunnel kiln equipment was being used by the Brickworks, it had been decided to write out the amount of £81,411 from the Balance Sheet with a consequential adjustment in the capital of the works. As well other asset items had been revalued. At the time the Department informed Audit— Q. 328.

“ This operation does not result in a serious distortion of the Balance Sheet but on the contrary it results in a sensible and realistic presentation of the value of assets actually used in the production of income . . . ” Exhibit No. 52/4.

(The Department said that the action taken was not unusual in the reconstruction of a commercial undertaking.) Q. 341.

3. The item £2,150 was a notional amount representing the freehold value of the land on which the Brickworks was located. It did not include the cost of any improvements. It had been written out of the accounts because the Brickworks was not a body corporate with power to hold an interest in land.

178. We were informed by the Department that it had since received no intimation from the Audit Office challenging the views of the Department conveyed in the letter to Audit of 1st August, 1958. The Auditor-General told us that, by an oversight, the Department of Interior had not been informed of later developments. He said that, in fact, Audit had referred the matter to the Treasury on 9th February, 1959, but had since received no reply. Q. 347.

179. At the public hearings on 29th April, 1960, the Treasury explained that it had taken no action to issue a direction in the matter because it had expected a decision involving the reconstruction and a change of control in the Brickworks; it had felt that there was no real purpose to be served in following up the matter with the Department of the Interior. Q. 351.



Exhibit  
No. 52/43.

180. On 4th May, 1960, five days later, the Treasury informed Audit of its views in the matter. In terms of broad principle, the Treasury agreed with the views of the Department of the Interior.

181. *Conclusion.*—The failure of the Treasury to deal promptly with this situation is again not to its credit. Its dilatoriness doubtless resulted in unnecessary criticism of the financial statements relating to the Brickworks in the Auditor-General's 1958–59 Report.

182. On 1st July, 1960, the control and management of the Brickworks was transferred to Commonwealth Brickworks (Canberra) Limited—a company limited by guarantee and not having a share capital.

(f) CANBERRA ELECTRICITY SUPPLY.

183. In paragraph 7 of his Supplementary Report for 1958–59 the Auditor-General indicated that his Office had had to defer examination of the final accounts of the Canberra Electricity Supply undertaking for the previous financial year 1957–58 because the accounts were in the course of reconstruction. In relation to this matter the Department informed Your Committee—

Exhibit  
No. 52/4.

“ . . . The Department has agreed to the following proposals by the Treasury on accounting for depreciation and interest:—

- (i) The amount of depreciation, calculated on the Straight Line principle, shall be paid to Consolidated Revenue annually, and be regarded as debt redemption, the capital indebtedness being reduced by the amount repaid.
- (ii) Replacement of assets shall be financed from capital appropriations. Day-to-day maintenance of assets will be a charge to the revenue of the undertaking.
- (iii) Interest at 5 per cent. per annum on the net capital indebtedness will be paid to Consolidated Revenue to the extent surplus cash is available.
- (iv) In setting tariffs for electricity charges, depreciation and interest charges will be taken into account.

Before these proposals can be implemented a decision as to the amount of the capital indebtedness is required. A figure suggested by the Department is being considered by the Treasury.”

Qs. 356, 358.

184. On 3rd December, 1959, the Department submitted to the Treasury proposals which involved the writing down of the assets of the electricity undertaking by approximately 80 per cent. The Treasury told us on 29th April, 1960, that the proposals were under active consideration but it had not yet reached a conclusion that it should agree to write off such a substantial amount of the Commonwealth's investment in the undertaking.

(g) HOTELS AND GUEST HOUSES—LEASED BY THE DEPARTMENT.

185. The comments of the Auditor-General under this heading in the 1958–59 Report (paragraph 57) and earlier Reports concerned four Commonwealth-owned establishments situated in Canberra leased to private interests—the Hotel Canberra, Barton House, Beauchamp House and Kingston Guest House. The comments raised three main issues—

1. The need for separate accounting records and the preparation of annual financial statements designed to show all revenue earned and all costs including capital charges incurred by the Commonwealth in respect of the four establishments;
2. That there had been no recourse to competitive tendering on expiration of the leases since they were first granted; and
3. The level of the annual rentals for the four establishments.

186. *Improved Accounting.*—Your Committee found that this matter had been resolved. On 14th December, 1959, the Treasury wrote to Interior in the following terms:—

Q. 380.

“ Treasury maintains the view that annual financial statements should be prepared showing all income and costs associated with the lease in question.

It is requested that such statements be prepared for 1959–60 and future years for each property and submitted to this Department as soon as possible after the close of the financial year concerned; and that any action now necessary to enable the required statement to be prepared be now taken.

Costs brought to account should include interest at 5 per cent. per annum and depreciation at 1½ per cent. per annum on the capital cost of the properties.

In addition the amount estimated to have been incurred during the year by the Parks and Gardens Section of the Department of the Interior in maintaining the site covered by the lease should be shown in a footnote to the statements.”

Exhibit  
No. 52/4

See paras.  
147 to 153  
above.

Although of the opinion that the statements would be of no practical value to management, the Department informed the Treasury that, on the assumption that the requests made were to be regarded as directions given under the provisions of section 16 of the Audit Act, the statements would be prepared.



187. *Lack of competitive tendering.*—The current lessee of the Hotel Canberra has been granted a lease for a period of 25 years from 30th September, 1950. The period of lease for the remaining three establishments is five years. We established that it has been the policy of the Department to give some preference to an existing satisfactory lessee on the expiration of a lease. Exhibit  
No. 52/10.

188. *The level of rentals.*—In his 1957–58 Report (paragraph 53) the Auditor-General said in relation to the Hotel Canberra. “. . . despite increases in costs the annual rental for the major leased establishment is virtually unchanged since 1935 . . .”

189. The original lessee leased this establishment in 1935 for a period (including options) of fifteen years at an annual rental of £3,120. The lease was renewed as from 30th September, 1950 at a rental of £3,350, per annum subject to the lessee incurring expenditure of approximately £60,000 on alterations. As from 13th September, 1956, the rental was increased to £5,804 5s. per annum in recognition of improvements carried out by the Commonwealth. Ibid.

190. Improvements carried out by the lessee become the property of the Commonwealth on the expiration of the lease. We were told that the Taxation book value of the improvements so far effected by the lessee was £98,109.

191. In the case of Barton House and Kingston Guest House the current leases include certain restrictive clauses relating to the accommodation of public servants and the determination of charges. As a condition of the granting of the current leases for these two establishments and Beauchamp House, the lessees were required to purchase the existing furniture and to undertake certain repairs and maintenance. Mr. McLaren said that, in recent years, some leases had become adverse to the Commonwealth but attempts to sell the properties to the lessees had not been successful. Qs. 389,  
406, 422.

192. *Conclusion.*—The leases of Barton, Beauchamp and Kingston Guest Houses expire within the next two years and opportunity should now be taken to examine the situation fully to determine what future course of action in relation to these establishments would best serve the interests of the Commonwealth.

#### (h) HOUSING.

193. The investigations of Your Committee under this heading were based on paragraph 55 of the Annual Report of the Auditor-General for 1958–59, which read—

“In the Annual Report for 1957–58 reference was made to the inadequate accounting maintained by the Department of the Interior for the various housing activities in the Australian Capital Territory.

During 1958–59, the matter of improved accounting has been under consideration by the Department and the Treasury.

At the time of compiling this Report, no proposals for improved accounting have been received, and the Departmental accounts for 1958–59 are in the same unsatisfactory state as previously reported.

The Commonwealth’s capital investment in Australian Capital Territory housing approximates £27,000,000 at 30th June, 1959. Apart from the requirements of efficient departmental administration, the interests of public accountability necessitate the annual submission of complete audited financial statements.”

194. The Department of Interior’s activities in the housing field in Canberra may be described briefly as the letting and sale of Government-owned dwellings and the provision of advances to home builders and purchasers. Other responsibilities in the housing field such as planning, financial programming, design, construction and maintenance do not reside with the Department of the Interior but are shared between the National Capital Development Commission, the Treasury and the Department of Works.

195. We ascertained that the history of this matter extended back to April, 1957, when the Chief Auditor, Canberra, requested information from the Department of the Interior as to what financial statements had been prepared in respect of housing activities. An exchange of correspondence followed which culminated in the following comment in the Auditor-General’s Annual Report for 1957–58 (paragraph 51):— Exhibit  
No. 52/4.

“. . . The only financial statement currently prepared by the Department of the Interior in connexion with these activities is a statement of ledger balances of the Australian Capital Territory Housing Trust Account, through which . . . (advances for the purchase or construction of dwellings, privately,) . . . are financed. This statement is not designed to show the operating profit or loss of the scheme.



The Department was informed that additional accounting was necessary to enable competent authority to have accurate information regarding profit or loss involved in various categories when rental, sale and advances policy is being reviewed, and that complete audited statements are desirable in the interests of public accountability.

The Department replied that for the purposes of departmental management additional financial statements are not required.

In view of the unsatisfactory nature of the reply, the matter has now been referred to the Department of the Treasury."

The final reply of the Secretary, Department of the Interior to the Chief Auditor, dated 20th January, 1958, canvassed section 16 of the Audit Act and other legislative provisions affecting the authority of persons to determine the form of accounts. The Secretary said—

See paras.  
147 to 153  
above.

(Committee  
document  
A.G.R. 51),  
Appendix D.

" . . . I have considerable doubts as to the respective authority of the Auditor-General and the Department (of the Interior) to decide the nature of the accounts which the Department should keep.

. . . As I see the matter at present any suggestions which you have to make as to accounts to be kept by the Department (other than the system of Treasury accounts) should be directed to the Treasury which can, if it chooses to do so, arrange for any necessary prescription or direction."

On 29th April, 1958, the Audit Office acquainted Treasury of the position concluding as follows:—

(Committee  
document  
A.G.R. 51)  
Appendix E.

" . . . It would be appreciated therefore if you could give consideration to the issue of an appropriate instruction to the Department regarding the preparation of financial statements for the Housing activity in the Australian Capital Territory."

Treasury action in the matter was to write to the Department on 14th August, 1958 in the following terms:—

(Committee  
document  
A.G.R. 51),  
Appendix F.

"Enclosed is a copy of a memorandum dated 29th April, 1958 received by this Department from the Audit Office on the question of preparation of financial statements for the various Governmental housing activities in the A.C.T. Treasury is in broad agreement with the Audit Office's views.

As stated by the Audit Office, on a number of occasions, the Joint Committee of Public Accounts has remarked adversely on the absence of financial statements showing the operating results of departmental undertakings (*see* in particular paragraphs 65 and 69 of the Conclusions in the Committee's 33rd Report). Further, with regard to Governmental housing activities generally in Australia, you will doubtless be aware that each of the State Governments has considered it desirable for accounts to be prepared showing the extent of State Government investment in housing in the State and the financial result for each year.

The question of funding any new positions in your Department which the Public Service Board might consider necessary for the preparation of financial statements for Governmental housing in the A.C.T. would be favourably considered by Treasury. Also, Treasury would be pleased to discuss with your Department an appropriate form of accounts and to assist in any way it can in achieving the object of having presented, annually, statements showing the financial results of the various housing activities of your Department.

Your comments would be appreciated."

Mr. McLaren replied to the Treasury on 5th November, 1958, concluding his reply as follows:—

(Committee  
document  
A.G.R. 51)  
Appendix G.

" . . . I have already advised the Chief Auditor that this Department does not require, for the purpose of management, financial statements additional to those now prepared.

If you consider the preparation of additional financial statements in relation to this Department's housing activities are necessary for your requirements, for any purpose of the Government, or to comply with suggestions by the Joint Committee on Public Accounts, the course appears for your Department to issue a direction specifying the nature of any statements required."

Exhibit  
No. 52/11.

196. The Public Service Board (which, with the concurrence of the Department of the Interior, had been participating in an Organization and Methods review which the Department had undertaken of its Accounts Branch) told us that a week later the Treasury wrote to the Board saying that it would like to consult with the Board and the Audit Office on the form of the accounts which should be kept for housing activities under the control of the Department of the Interior. The Board continued—

Exhibit  
No. 52/11,  
Appendix A.

" . . . The Board replied on 18th November accepting the invitation and stating that this consultation would appropriately link in with the O. and M. review of the Department's Accounts Branch being conducted by the Departmental and Board O. and M. Officers. It was suggested to the Treasury that the conference should be convened at an early date.

Shortly after, a Board's O. and M. officer had a preliminary exchange of views with a Treasury official, which concluded on the note that the proposed conference would be held as soon as possible.



Several attempts were subsequently made to ascertain the date of the conference, but it was not until 23rd March, 1959 that the Treasury verbally advised deferment of the conference until (the Government) had given a decision on a submission made to it by the Minister for the Interior on 26th February, 1959 . . .

. . . (Some weeks later) after consultation with the Department of the Interior, the Board decided to set down tentative views on the form of accounts appropriate to the Housing activity, so as to provide a basis for consideration by all concerned. The report was submitted to the Department of the Interior on 3rd July, 1959, and copies sent to the Treasury and Audit Office (for information) on 19th August, 1959."

In a formal submission to Your Committee dated 28th April, 1960, the Treasury said that a review of rental policy which had been undertaken by the Government following the February, 1959 submission of the Minister for the Interior had not yet been completed but that it hoped that out of the review would " . . . emerge some clear Government direction on the question of accounting for expenditure on Government housing in the Australian Capital Territory." The Treasury said that, until certain policy issues were resolved, it would not be prepared to suggest to the Department any particular form of accounts because they could well become obsolete. Exhibit No. 52/12. Q. 1529.

197. Broadly the attitude of Mr. McLaren was that, in the absence of a specific direction from properly constituted authority, it was not his responsibility nor did he have the authority, to collect from other bodies the information necessary in the preparation of comprehensive financial statements relating to the housing activities in the Australian Capital Territory. Obviously he was greatly concerned too about the administrative cost involved in producing financial statements which he considered unnecessary to the management of his Department and, because of deficiencies in basic data, of doubtful value generally. In this, he was supported by and large by the Public Service Board whose officers had a detailed knowledge of the position by reason of their participation in the Organization and Methods review. In its formal statement the Board said—

" *General Views on Accounting Needs*—The Board's representative has taken the view that accounting and reporting must correspond with the pattern of responsibility. At present, responsibility for housing in the A.C.T. is spread between various authorities, viz., the Department of the Interior, National Capital Development Commission, Treasury Works Programming Section, and the Department of Works. In these circumstances, it is considered that the Department of the Interior could not be held responsible for the preparation of comprehensive financial statements (Balance Sheet, General Revenue Account and Trading Account) embracing the whole range of housing finances over which it does not have complete control. The view is held that the Department of the Interior might be justifiably required to prepare modified financial statements which would provide it with adequate information for policy determination and public accountability purposes. There are also a number of major problems associated with the preparation of comprehensive financial statements not to mention the probability that their accuracy would be suspect and their preparation costly and the final product might be of little more than of academic interest." ..

Exhibit No. 52/11 Appendix A.

We sought elaboration of the Board's views at the hearings on 17th May.

MEMBER: "How would you reconcile the following words used in the report\*—'may only be of academic interest'—with a revelation of the full investment in housing and the annual profit return which a full set of accounts would of course provide?—(Mr. Nott) If I have your reference correctly, it is towards the end of the report \*, where we are summing up the total picture. The reference is based on the fact that whatever accounts were produced, in our estimation they would have to be based on a large number of assumptions, approximations and apportionments of expenditure and receipts between the different departments involved. That is why we say that as far as we can see, any resulting statements would be only of academic interest. Some figures of total capital investment and financial results would of course be shown up in the consolidated overall results. Personally, I would have no great confidence in their accuracy at all. It is very easy to say, 'Let us have a balance sheet or a consolidated P. and L. account,' but unless the figures are reliable and trustworthy, I am inclined to doubt whether it is worthwhile to prepare it." Q. 1,447.

MEMBER: "If the accounts did indicate with reasonable accuracy a profit or a loss, and if a consolidated balance sheet was there for all to see, that would be a revelation of the whole project, which does not exist today. Do not you think that that is of more than academic interest?—(Mr. Nott) I think that any such attempt at a revelation, going back over forty odd years, might be more misleading than informative." Q. 1448.

MEMBER: Looking at paragraph 18 of the report \* I felt I would like to ask you whether you would not agree with my statement that the Parliament and the public generally are justified in looking for the costs of administering the housing loans scheme?—(Mr. Nott) I think the answer to that depends on whether you regard the housing scheme as a commercial venture or whether it is just another departmental activity associated with the development of the Seat of Government. If it is the latter, then the information is available in toto in the Department of the Interior's administrative votes, and also in those of the Department of Works, A.C.T. branch. If, on the other hand, you take the view that housing is a separable commercial entity, then something further would be required—and certainly would be informative—by way of dissecting the administrative expenses of these two departments and the National Capital Development Commission." Q. 1449.

\* Exhibit No. 52/13.



198. *Conclusion.*—In principle, we agree with the comment of the Auditor-General that the interests of public accountability warrant the annual submission of complete audited financial statements covering the Commonwealth's investment in housing in the Australian Capital Territory. Any such statements prepared should be made available to the Parliament.

199. We consider, however, that the comments and criticisms of the Auditor-General might more appropriately have been made in general terms and not directed specifically at the Department of the Interior whose present responsibility in relation to housing is limited. It seems to us that, in the absence of a statutory requirement or a direction from the Government, or the Treasurer (under the Audit Act), the Department of the Interior had not the authority to require from other bodies with important responsibilities in the housing field, the information essential to the preparation of accurate consolidated financial statements.

200. In terms of general principle we consider the attitude of the Secretary, Department of the Interior, correct; a Department should not incur substantial expenditure engaging in activities outside the limits of its responsibilities unless properly required so to do.

(i) YOUR COMMITTEE'S SUMMING UP.

201. Our inquiries into the matters raised by the Auditor-General in relation to the Department of the Interior have illustrated the breakdowns in administrative machinery that can occur when there is a serious lack of appreciation by governmental authorities of the points of view and respective responsibilities of each other. Many of the matters, relatively unimportant when initially raised by the Audit Office, became major issues as the parties concerned maintained rigid attitudes and determined efforts were not made to achieve a solution. In our assessment, there were faults on all sides—on the part of the Treasury, the Audit Office and the Department of the Interior.

202. The unnecessary effort, expense and delay which result from clashes of this kind is something to which the Public Service Board, in the light of its responsibilities under the Public Service Act, might give close consideration. The question arises whether the existing arrangement of administrative responsibilities makes adequate provision for their prompt resolution.

203. Clearly, the whole situation, as we found it, was greatly aggravated by the procrastination of the Treasury. It had the responsibility under section 54 of the Audit Act to consider and deal with plans and suggestions made in the Reports of the Auditor-General. If the Treasury disagreed with the views of the Auditor-General it had a duty so to inform him, thus resolving the matter; where it did agree it had a duty to direct the Department of the Interior accordingly, as invited so to do by that Department. Yet the Treasury, while declining to issue directions under section 16 of the Audit Act or Treasury Regulations 127 (3) on the grounds of doubts as to its powers, in our knowledge did not until recently take positive steps to have authorized, amendments to the Audit Act which would place its powers beyond doubt. In Your Committee's view, the need for the Treasury to act with precision and without hesitation in situations of this kind is of the utmost importance to the efficient and orderly financial administration of government and to the effective discharge by the Auditor-General of his duties and responsibilities.

See paragraphs  
147-154  
above.

CHAPTER IX.—GENERAL CONCLUSIONS.

204. The role of the Auditor-General and his officers is both essential and important. Yet the great benefits that can be derived from the endeavours of an efficient Audit Office will not be obtained fully unless there is an effective follow up of the reports of the Auditor-General at the departmental level. Clearly, in some Departments there has been a tendency to ignore these reports, while the attention paid to them in the Public Service Board and the Treasury has been deficient. It is apparent to Your Committee that section 54 of the Audit Act and section 17 of the Public Service Act place upon these last two authorities the main responsibility at the departmental level promptly to investigate and to act upon these reports.

205. One of the more disturbing aspects of our inquiry has been the number of occasions where we have found that the main cause for serious delays has resided in the Treasury. And once again there have been suggestions that delays have occurred because the Treasury is suffering from a serious shortage in staff. It is not for Your Committee to determine whether or not the staffing of the Treasury is adequate to permit it properly to undertake the important administrative functions that it is called upon to perform. However, it is a question which should be capable of ready determination and we propose that early action to achieve this and to remedy any deficiencies disclosed be taken by the Public Service Board and the Treasury.



206. Many of our investigations have concerned the form of accounts that should be prepared by commercial or business type activities and undertakings operating within the Commonwealth Public Account. The annual financial statements which are the end result of conventional accounting methods would provide a ready means for the Parliament to judge the operations of such bodies not provided by the existing published information available in the Estimates, the Finance Statement or the Report of the Auditor-General. Accordingly Your Committee propose that—

- (i) a consistent set of “commercial” accounting principles should be established for and applied to all commercial or business type activities and undertakings operating within the Commonwealth Public Account; and
- (ii) serious consideration should be given to the annual presentation to the Parliament (perhaps in the form of a supplement to the Finance Statement reported upon by the Auditor-General) of the resulting financial statements.

207. *Acknowledgment.*—Before concluding this Report Your Committee wish to record our appreciation of the work done by Mr. R. C. Davey who, after serving for three years as Secretary to the Committee, prepared the draft of this Fifty-Second Report during his annual leave period. The Secretary's duties are of a particularly exacting nature and Mr. Davey's energy and knowledge has been invaluable in enabling Your Committee to carry out our programme each year.

For and on behalf of the Committee,

F. J. DAVIS,

Chairman.

R. C. DAVEY,  
for Secretary,  
Joint Committee of Public Accounts,  
Parliament House, Canberra, A.C.T.  
30th November, 1960.